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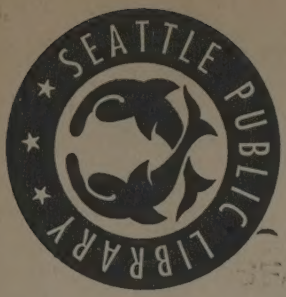

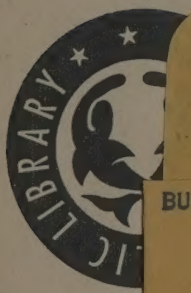

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THE HISTORY OF REPARATIONS

by

CARL BERGMANN

WITH A FOREWORD BY
SIR JOSIAH STAMP
G.B.E., F.B.A.

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FOREWORD

THE literature available to the British reader upon the general question of Reparation, apart from piecemeal and isolated official records, is confined to four or five works—viz. *The Economic Consequences of the Peace* (1920) and *The Revision of the Treaty* (1922), by Mr J. M. Keynes; *Germany's Capacity to Pay* (1923), by Moulton and McGuire; and *The Reparation Plan* (1924), by Dr Harry Moulton. There is also, in French, a compendium, entitled *Documents sur la Question des Reparations*, by G. Calmette (1924). These works have dealt critically with various features of the Reparation problem as they have been prominent from time to time, but only to a slight extent do they form a connected history, or a guide through the twist and tangle of six ill-starred and unhappy years. Apart from the famous third chapter in Mr Keynes' first work, there is little of the intimate touch of the personal observer and participator to link up the documentary evidence into a living record of motive and aim, of attack, defence and counter-attack—too little, indeed, to make an understandable human story.

It is therefore fitting, and indeed indispensable, that Herr Bergmann's connected and exhaustive record should be made available to the vast public of America, England and the British Empire in this brilliant translation.

The author has had the immense advantage of close personal association with the problem in most of its aspects throughout its whole history. It will be clear to the reader of this work that, whereas statesmen, governments and diplomats have come and gone, each contributing his quota to the story, but with a detailed knowledge of only a single episode or transaction, Herr Bergmann has stayed through it all, acquiring a probably unrivalled knowledge of the sequence of events, an invaluable grasp of the *continuum*, and possessing a conspicuous ability to bridge the gaps of individual policy. It is possible that M. Seydoux, from his own angle, could span a field of like extent, and of course his treatment would be fuller in content and more authoritative for those aspects relating to French ideas, French policies, hopes and fears. It is probable

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that, so far as England is concerned, the joint efforts of Mr J. M. Keynes, Sir Arthur Salter, Lord Bradbury and Sir Andrew McFadyean would be required to cover the same ground. Certain it is that no single participating statesman, even M. Poincaré or Mr Lloyd George, could tell so much of the narrative with first-hand authority.

Among all the participants in the various acts of the Reparation drama that I have personally met—and they have been many—I have never yet found one holding views which are at variance with my own concerning Herr Bergmann. His intellectual competence goes without saying for anyone who reads this book to its end. It would be difficult to find a man better qualified to act as "go-between" in difficult negotiations involving the prejudices and diplomatic commitments of nations. For he has appreciated fully the differences in the mentality of his own people and that of their neighbours, and if it has been commonly and rightly alleged that German appreciation of Allied psychology has often been lamentable, this has never been Herr Bergmann's fault, for he has always had a clear sense of it. That in many instances he takes a more definitely German point of view is no drawback or discredit—his advocacy or partisanship is the more persuasive because he has a greater capacity to appreciate the other point of view than most of his contemporaries. It has been a certain quality or steadiness of view over the whole problem, not wavering for essentials, but placing without cavil the several Allied "complexes" in their place in the scheme, that has made it easy for statesmen and negotiators of all nations, in numerous conferences, to try their thoughts upon him in confidence, and to get an authoritative sense of his people's reaction. It has been his lot to see more than once the wheel full circle, and ambitious projects falling by their own weight. He cannot even yet have revealed his fund of knowledge and all he has doubtless felt concerning the peculiarities of national type and outlook which have added a maze of conflicting aims to the inherent difficulties of the Reparation problem. It is doubtful whether his constructive contribution has yet been appreciated at its true value, even in his own country.

When Herr Bergmann has abutted upon the collective deliberations of Allied committees, it cannot be expected that his estimates

of the forces at work therein shall be the last word. For instance, the inner history of the Dawes Committee and the development of its ideas will not be written for many years—and then possibly only by a few actual participants preserving documentary checks upon elusive recollections—so that Herr Bergmann's intelligent *aperçus* and inferences from the indications that came his way are not conclusive or final, though they will ultimately possess a certain independent value as indicative of the extent to which those inner forces were objectively obvious.

The present moment is one of calm, during which such retrospect is valuable. The Dawes Plan has taken the problem largely out of the political sphere and placed it in the economic field. But the difficulties of Reparation in the economic field have yet to be tried and proved, and the Plan provides at least that their solution shall be attempted in the light of economic principles and possibilities, judged by economic tests. The old chapter is well-nigh complete, the new is about to unfold. It must contain at least one new problem which may, if care is not taken, slip back into the old political contest. The questions of the duration of the Dawes annuities, and the maximum sum payable as reparation—two related but not identical problems—have yet to be faced, and ought to be faced before many years have elapsed. For linked thereto are the financial relations of the Allies, on which rest in turn the cordiality of their political contacts and their internal financial burdens and stability.

But we are getting far enough from the past to see it whole, and not too far but that we can see its parts. Herr Bergmann gives it a dry light from an indispensable angle.

J. C. STAMP.

PREFACE

THE 1st of September 1925 was the date of the first anniversary of the inauguration of the "Dawes Plan," the name commonly given to the settlement of the reparation problem which was signed in London, on 16th August 1924, between the Allied Governments, Germany and the Reparation Commission, and which was based on the report, submitted on 9th April 1924, by the Committee of Experts appointed by the Reparation Commission.

The conclusion of the first year's operation under the Dawes Plan is notable not only for the economic and financial results achieved, but also for its far-reaching political significance. Within this first year all German territory which the Allies had occupied since the Treaty of Versailles by way of sanctions has been set free in accordance with the terms of the London Agreement. Now at last normal Treaty relations are re-established. The Ruhr District and the towns of Düsseldorf, Duisberg and Ruhrort have been evacuated by the foreign troops.

To-day these facts appear almost as a matter of course. What a confusing succession of events they embrace we realize only if we carry our thoughts back the short period of two years. At that time chaos prevailed. German economy and finances were utterly shattered. The separatist movement, which had free sway in the occupied territory, threatened to break up the Reich any day. Germany's doom appeared to be sealed.

At one stroke all this was changed. The political and economic unity of Germany is stronger than at any time since the end of the World War, her monetary system has been regulated and her budget has been balanced. The unhappy struggle for reparation which for five years kept the world in feverish tension and prevented the recovery of Europe has been adjusted, for a perceptible period, by agreement between the victors and the vanquished. For the present the reparation problem has found a practical solution. The change in the general situation within the last two years is so startling that it is hard for a good many people to realize that a new era has dawned and that the hope for a return to quiet and normal conditions is now justified. The army of unbelievers in both camps will dwindle in proportion as the political tension between the

peoples relaxes. An encouraging advance in this direction has just been made at Locarno.

The settlement of reparation, which could not be advanced a single step through negotiations between the interested Powers or through brute force so long as the brains of the political leaders of the conquering Powers were filled with the layman's visions of uncounted milliards, was accomplished as soon as the inexorable logic of economic laws prompted the Allied Governments to seek and follow the counsel of economic experts. By three months of hard work the experts of the Dawes Committee solved their task in a manner which deserves the highest commendation, though naturally the result of it did not fully satisfy either party. This accomplishment, however, was possible only because the experts did not attempt to find an entirely new way to solve the reparation question, but had the insight to build upon the experience of the past. In every part of their plan we find ideas which had been put forth and explained by experts of both sides in the course of previous negotiations. The stones for the structure had been cut before, but they had been smashed through the interference of high politics with former attempts at construction, and lay scattered in ruins along the fateful road of reparation. It is to the everlasting credit of the experts, headed by Dawes, that they assembled the best stones from the ruins and skilfully joined them into their ingenious structure. The Dawes Plan has thus become a monument to the earlier efforts to find a solution of the problem, and without a knowledge of the history of reparation the Plan cannot be fully understood.

But the value of the experience gained in the struggle for reparation lies not only in the past. This experience will prove most useful when it becomes necessary to overcome future difficulties arising in the handling of reparation. The stately mansion of the Dawes Plan beckons us to welcome rest and recuperation on the wearisome road of reparation, but the goal itself has not yet been attained. The experts themselves declared that the Plan offered no complete solution of reparation, which requires above all the determination of the total amount which Germany will have to pay. It also remains to be seen by what means and to what extent the amounts due each year for reparation under the

Dawes Plan can be actually transferred abroad without injuring the economy of the debtor and the creditors.

The road of reparation therefore leads onward. We have only reached a point whence we can obtain a full view of the journey accomplished and carefully explore the farther trail.

I have undertaken to present in this book an outline of the development of reparation up to the present day, and on the basis of past experience to suggest the goal for which we should strive in the final solution of the problem. Other important questions have been touched upon in this connexion which do not form an integral part of the reparation problem but stand in close relation to it; I have entered upon them, however, only in so far as it appeared necessary to understand that relation. Owing to the plethora of the material we shall have to limit ourselves strictly to the subject-matter in hand.

I believe that such an undertaking meets a real want. There exist, to be sure, a great many works and investigations of merit dealing with reparation. The Reparation Commission itself has published valuable material on its activities, and the Dawes Plan, its organization and operation have in particular been widely commented upon. There is lacking, however, a complete history of reparation, tracing events from their beginnings and indicating their progressive development and interrelation.

It seemed to me that I should undertake this task because, first, as representative of the German Government with the Reparation Commission, and later on as confidential adviser during the negotiations with the Allied Governments, the Reparation Commission and the Committee of Experts, I have been in a position to follow closely the development of reparation matters from the beginning to the end.

I have endeavoured to write in a matter-of-fact, plain and concise language, addressing myself not only to those who are familiar with reparation—though I trust they, too, may find the following pages worth their study—but to all those also who desire to comprehend the foremost economic problem of the post-war period. To reach this wider public, however, I had to guard against two pitfalls.

I had to be careful not to stifle general interest under the mass of details which, under the ramifications of the Treaty of Versailles,

were for years the subject of arduous discussion between Germany and the Reparation Commission. It had to be my aim rather to keep a straight and well-defined line, eliminating whatever was not essential for clear comprehension. I hope that these restrictions have not impaired the completeness of my work.

A second and possibly greater difficulty arose from the method of presentation. The economic problem of reparation has been so deeply drawn into the political controversies of the former belligerents, and has been so distorted in public discussion, that almost all publications of this character have been accused of partisanship. I have been guided by the thought than any presentation of the history of reparation will be helpful in the final solution of the problem only if it abstains from serving any political end and treats the matter without prejudice or partiality.

What is needed is to find the truth and to tell the truth.

CARL BERGMANN.

PREFACE TO THE ENGLISH EDITION

This book is a translation of my work, *Der Weg der Reparation*, which was published in January 1926 by the Frankfurter Societaets-druckerei of Frankfurt am Main. Occasion has been taken in this English edition to correct certain minor errors which are to be found in the original text and to include the results of the second reparation year, which came to an end on 31st August 1926.

Sir Andrew McFadyean has been good enough carefully to check the translation into English. For this service I owe him a debt of sincere gratitude to which I would here like to give public expression.

I should also like to acknowledge my debt to Sir Josiah Stamp for writing the Foreword to this English edition, and to Mr W. T. Layton for his interest and assistance in its production.

CARL BERGMANN.

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PART I

FROM VERSAILLES TO THE LONDON ULTIMATUM

CHAPTER I

THE WILSON PROGRAMME

The word "Reparation," since the World War, has acquired a special meaning, and is understood to signify the obligation of the vanquished, and of Germany in particular, to repair the damages suffered by the victors. The present work deals exclusively with reparation incumbent upon *Germany* under the Treaty of Versailles, of 28th June 1919. In order fully to understand the provisions of this Treaty it is necessary to go back somewhat beyond that date. Reparation originated in the famous peace programme of President Wilson, on the strength of which Germany declared, in October 1918, her readiness to enter into the Armistice. The fourteen points of the Wilson programme included the demand for the restoration of the occupied territory. In the course of negotiations regarding the Armistice, President Wilson, through Secretary Lansing's note of 5th November 1918, declared, in the name of the Allied Powers, that restoration of the occupied territory meant that Germany had to repair all damages inflicted upon the civilian population of the Allied Governments and their property by German aggression by land, by sea, and from the air. To this Germany submitted, and thereby her liability for reparation was legally fixed within certain definite limits. Humanity would have been spared much suffering if the ultimate peace terms of the Allies had not overstepped the limits thus agreed with Germany. The problem of reparation would not then have become so inexpressibly difficult, and would have been soluble much earlier. The Allies, however, abandoned the basis of the Wilson programme so soon as they realized that Germany was completely defenceless and that, whatever demands might be advanced, her hands were tied.

At the request of Clemenceau, Germany's liability for reparation was embodied in the agreement for the Armistice, although, as Lloyd George very properly said at the time, reparation had nothing to do with the Armistice, but belonged to the Peace Treaty.

Under the caption "Financial Conditions," Article 19 of the Armistice compact categorically called for reparation, and stipulated that, during the Armistice, Germany should not remove any public

values which might serve the Allies as security for the payment of the war damages. It further provided for the restitution of specie holdings of the Belgian National Bank, and generally for the immediate return of all documents, cash and securities belonging to public or private interests in the occupied territories. Thereupon, within a few days, Germany returned sequestrated securities, and property taken as security, to a value of over 8½ milliard francs. The return of Russian and Rumanian gold confiscated by, or delivered to, the Germans was also stipulated. Reservation was expressly made for any supplementary demands of the Allies or the United States.

In addition to the delivery of an immense quantity of war material, and all submarines, and the dismantling or internment of the German sea-going fleet, Germany undertook to deliver 5000 locomotives, 150,000 railroad cars and 5000 motor-trucks, as well as to surrender the railroads of Alsace-Lorraine, with their entire rolling stock and material. This was anticipating reparation in means of transportation to the amount of several milliard gold marks.

In the agreements for the extension of the Armistice, which at first was concluded for monthly periods only, the claims for reparation were further enlarged. In the financial agreement of Trèves, of 13th December 1918, a formal embargo was placed on all specie holdings of the German Government and the Reichsbank, as well as on all foreign securities and foreign credit balances belonging to the German Government and public treasuries. The German Government was even compelled to undertake not to grant export licences for foreign securities and credit balances owned by individuals and corporations without first obtaining the consent of the Allies. The attempt of the French Government thus to exercise, through a special commissioner of finance, general control over German finances was frustrated at the time by the objection of the American delegate, Norman B. Davis. In a further agreement, concluded at Trèves, on 16th January 1919, Germany had to undertake to deliver many thousands of agricultural machines and implements as a penalty for delay in the complete delivery of the railway material.

From the time of the Armistice to the conclusion of peace it

became more and more evident that the demands of the Allies for reparation would by far exceed the Wilson programme. The claim that the entire war costs of the Allies should be paid was now openly made. Even Lloyd George, in a speech made at Bristol on 11th December 1918, took this stand, placing the English demand alone at 8 milliard pounds sterling. At the meetings of the Allied Reparation Commission which met in Paris on 1st February 1919 the three English delegates—Mr Hughes, Prime Minister of Australia, Lord Sumner and Lord Cunliffe—based the claim of the Allies for the complete refund of the *total cost of the war* on the right of the conqueror in accordance with international usage. The Americans contested this theory, but approved the complete reparation of *all war damage*. The discord between the victor nations was transferred, in March 1919, to the Supreme Council of the Allies, this being the name of the conferences of the four heads of the Governments of France, England, Italy and America. France declined to consider Germany's ability to pay as a basis for computing reparation, while the American delegation insisted up to the close that the limits of the Wilson programme should not be exceeded. The situation became so critical that an open rupture between the Allies and America seemed almost inevitable, but finally Lloyd George and Clemenceau changed their tactics. They succeeded in convincing President Wilson that all their reparation claims, including that for military pensions, were to be considered as claims for indemnifying the civilian population. By this means the victors reached an agreement at Versailles in which the Wilson programme was adhered to in appearance, but in reality entirely abandoned.

The main point, that of fixing the total amount of the German liability for reparation, was left open, notwithstanding strong opposition from the American delegates. It is difficult to realize to-day the delusion under which the leaders of the Allies at that time dictated the terms of peace to Germany without considering the possibility of their execution. They, and the world with them, had lost all financial standards during the years of the war, in which unheard-of amounts of war expenses and war debts had accumulated. The Allied peoples had been continually told that Germany would have to pay the entire cost of the war, and there was neither

insight nor courage enough at Versailles to admit that it would be necessary materially to reduce the extravagant expectations entertained regarding the German indemnity. For this lack of wisdom and determination both victors and vanquished had to pay dearly in the years of the struggle over reparation.

The history of events leading up to the Treaty of Versailles has been presented exhaustively in numerous publications, especially on the part of the Allies. I here refer to it only to the extent necessary for an understanding of the history of reparation. How far the compromise of Versailles fell short of the claims of the several Allies is seen in the tentative draft of the financial conditions of peace submitted to the Supreme Council, 12th April 1919, by the French Finance Minister, Klotz. According to their draft, Germany was to make a first payment on account of her reparation debt of 24 milliard gold marks—16 milliards within three months, and the remaining 8 milliards within a year after the conclusion of the Treaty. Beginning with the second year, annual payments were to be made starting with 8 milliard gold marks and increasing at the rate of 2 per cent. every year. The number of years for which the payments were to run was to be determined by an Interallied commission.

While the Allies were thus outbidding each other in Paris in piling up claims against Germany, active preparations for the Peace Conference were progressing in Berlin, undeflected by daily riots and serious apprehensions for the country's food supply. Even though the German people did not read without misgivings the news from abroad reporting the demand, from the platform and in the Press, for many hundred milliard marks of war indemnity it trusted, with almost religious faith, that President Wilson would enforce his fourteen points as against the demands of the Allies, and that, in conformity with the preliminary international agreement, the indemnity would be limited to the reparation of damages in the devastated areas of France and Belgium.

In the light of later developments of the reparation question, and for comparison with the Dawes Report, it deserves to be mentioned that the German Government reckoned as early as December 1918 with a reparation debt of 30 milliard gold marks. It was expected that Germany would have to pay that sum as part of the

peace terms, and a careful study was made of ways and means by which such an amount could be paid. In a memorandum prepared at the time, the Treasury of the Reich came to the conclusion that reparation could not be accomplished either by cash payments or by means of a loan or, finally, without grave economic danger for the Allies and Germany by deliveries in kind, and that the only proper method of reparation was for Germany to undertake to repair the damage done with its own labour. In addition to reconstruction proper, large deliveries might be made of raw material, building material and ships.

With such ideas regarding reparation the German Delegation of two hundred strong proceeded to the Versailles Peace Conference, on 27th April 1919, where it was carefully secluded from the outer world. On 7th May the conditions of peace were at last handed to it. Any possibility of negotiations was rejected forthwith, and the Germans were to present their comments on the terms in writing only. But for slight changes, of a merely formal character, the terms of reparation incorporated in the Treaty of Versailles were in the exact form in which they were originally presented.

That the Allies precluded in Versailles any discussion of the Peace Treaty was primarily due to the fact that they considered the German delegates as representatives of a criminal people, which was merely to be sentenced, and which before judgment was pronounced was granted only the right to plead to the indictment. They may have been prompted quite as much, however, by the fear that any negotiations with the Germans might reopen the cleavage, only bridged over with trouble, between the several Allies and America.

CHAPTER II

THE PROVISIONS OF THE TREATY

UNDER the Treaty of Versailles, Germany's liabilities for reparation were as extensive and complicated as they were vague. I will attempt to summarize them in the following lines as briefly as possible.

The Treaty defines only the nature of the damages for which Germany is to make reparation, but not the amount. It makes Germany responsible in principle for all war losses and damages sustained by the Allies, on the ground that Germany and her allies had imposed the war upon them (Art. 231), but, owing to Germany's inability to repair *all* war losses and damages, it proceeds to limit the liability to a series of specific categories (Art. 232 and Annex. I. thereto). In this connexion the Wilson programme—"damages to the civilian population by German aggression by land, by sea, and from the air"—is quoted, but is made ineffective by the words immediately following, which stipulate that Germany is held generally responsible for all damages enumerated in Annex I. to Art. 232. This includes pensions and all other compensations paid by the Allied and Associated Governments to members of their armies and their dependents.

The amount of these damages was to be determined by an Interallied commission, called "The Reparation Commission." This body was to fix, by 1st May 1921, the total amount of damages and notify it to the German Government as representing the extent of Germany's obligation. The Commission was concurrently to draw up a Schedule of Payments prescribing the time and manner for securing and discharging the entire obligation within a period of thirty years from 1st May 1921. The Commission might, after an investigation of Germany's resources and capacity, and after hearing her representatives, extend the date and modify the form of the Schedule of Payments, but it could not cancel any payment except with the specific authority of the several Governments represented upon the Commission (Arts. 233, 234).

Pending a final determination of the claims for reparation, Germany was to pay, by 1st May 1921, as an instalment, the

equivalent of 20 milliard gold marks, in such manner as the Reparation Commission might fix. Out of this sum the expenses of the armies of occupation subsequent to 11th November 1918 were first to be met. Such supplies of food and raw materials as might be judged by the Governments of the Principal Allied and Associated Powers to be essential to enable Germany to meet her obligations for reparation might also, with the approval of said Governments, be paid out of the above sum of 20 milliards (Art. 235). By way of security for, and acknowledgment of, her debt, Germany was to deliver immediately to the Reparation Commission bearer-bonds to the amount of 100 milliard gold marks. Twenty milliards of these bonds, maturing on 1st May 1921, were to serve as security for the first instalment of 20 milliards. Additional bonds for 40 milliard gold marks were to bear 2½ per cent. interest from 1921 to 1926 and 5 per cent. thereafter, with 1 per cent. for amortization. For the balance of 40 milliards Germany was to execute an engagement whereby she undertook to issue a further 40 milliard gold marks of 5 per cent. bearer-bonds so soon as the Commission was satisfied that Germany would meet the interest and sinking fund thereof. Further issues of bonds, even beyond all these amounts, might be required by the Commission (Annex II., § 12, to Art. 232).

Interest at the rate of 5 per cent. was to be debited to Germany as from 1st May 1921 in respect of the total debt determined by the Commission. The Commission was authorized to alter this rate of interest (Annex II., § 16).

Apart from cash payments, Germany had to agree to the direct application of her economic resources to reparation (Art. 236). These contributions, known as "deliveries in kind," are regulated by Annexes III., IV., V. and VI. to the Reparation chapter of the Treaty.

1. *Ships* (*Annex III.*).

All merchant ships of 1600 gross tons and upwards, one-half reckoned in tonnage of ships between 1000 and 1600 gross tons, and one-fourth in tonnage of steam-trawlers and other fishing boats, were to be delivered to the victorious Powers. Germany, furthermore, was to construct for the Allies, for a period of five years, merchant vessels up to 200,000 gross tons annually. Moreover,

Germany was to restore all river boats which had come into her possession since 1st August 1914, and cede to the Reparation Commission up to 20 per cent. of the German river fleet.

2. *Animals and Material* (*Annex IV.*).

Germany was to replace all losses of the victor nations in animals as well as machinery, equipment, tools and similar articles of commerce, by animals and articles of the same nature which might be in being in Germany, and to furnish material for reconstruction, machinery, heating apparatus, furniture, etc., etc., all on the basis of lists to be filed with the Reparation Commission by the several Governments. The Reparation Commission was to fix the prices and to decide to what extent Germany was able to fill these requisitions. France and Belgium were to receive within the next three months a certain number of animals, principally horses and cattle (700 stallions, 40,000 fillies and mares, 140,000 milch cows, 40,000 heifers, 4000 bulls).

3. *Coal and Derivatives of Coal* (*Annex V.*).

Germany was to undertake the following deliveries of coal: to France, 7 million tons of coal per year for ten years, as well as the deficiency in production of the coal mines in Northern France destroyed during the war, up to 20 million tons annually for the first five years, and up to 8 million tons annually for the following five years; to Belgium, 8 million tons of coal per year for ten years; to Italy, for ten years, gradually increasing quantities, up to 8,500,000 tons per year.

During the first five years, therefore, the yearly deliveries might reach a maximum of 43,500,000 tons.

The price to be credited for coal was generally the German pit-head price to German nationals, but was not to exceed the British export price at pit-head plus the freight to the frontier of the receiving country. For sea deliveries the German export price f.o.b. German ports, or the British export price f.o.b. British ports, was applicable—whichever happened to be lower. The Allies could ask for deliveries of coke in place of coal in the proportion of three tons of coke to four tons of coal.

Germany further undertook to deliver to France during each

of the three following years 35,000 tons of benzol, 50,000 tons of coal tar or corresponding products of distillation, and 30,000 tons of sulphate of ammonia.

The price of coke and coal products was to be the price charged to German nationals.

The Reparation Commission was authorized to reduce these deliveries.

4. *Chemical Products* (*Annex VI.*).

Germany undertook to deliver dyestuffs and chemical drugs up to 50 per cent. of the stock on hand in Germany at the date of the coming into force of the Treaty, and up to 25 per cent. of Germany's normal production until 1st January 1925. The price was to be the pre-war net export price, plus subsequent increase in the cost of production.

The Treaty of Versailles provided that the value of all these deliveries was to be fixed by the Reparation Commission and to be credited to reparation account. The value of other deliveries and cessions provided by the Treaty was to be credited to Germany in a similar manner. Credit for property restored, however, was expressly ruled out (Arts. 238, 243). This refers to the restitution, already provided for by the Armistice, of cash, securities, animals, and objects of every description, sequestrated and confiscated by Germany during the war, as far as they could be identified on German territory or on the territories of her Allies.

Other items to be credited to reparation account were :

(*a*) the value of submarine cables ceded by Germany, in so far as they were private property ;

(*b*) deliveries made under the provisions of the Armistice, exclusive of war material, mainly material for transportation and agricultural machines ;

(*c*) the value of the coal mines in the Saar region, which were ceded to France ;

(*d*) any payments which the Reparation Commission was to receive from the Powers to whom German territory was ceded, as compensation for their acquiring property of the Reich or of German states, or on account of their

obligation to pay part of the debt of the Reich and the states;

(*e*) the value of the rights and participation of German nationals in public utilities or concessions in Russia, China, Austria, Hungary, Bulgaria, Turkey, or in the territories ceded by Germany under the Treaty, so far as the Reparation Commission might order the transfer of these rights (Art. 260).

For the return of Alsace-Lorraine France did not have to pay any indemnification to Germany, nor was any compensation allowed for the railroads of those provinces. From this source alone France secured to herself in advance a separate reparation of several milliard gold marks.

Belgium, too, was released from the payment of compensation for property of the Reich or German states in territories ceded by Germany.

These exclusive exceptions in favour of France and Belgium aggravated the burden of reparation by the value of the property thus gratuitously transferred. But even more unjust and oppressive was the provision of the Treaty under which Germany had to surrender all her colonies without receiving any compensation whatever for these invaluable cessions.

The supervision of all provisions of the Treaty regarding reparation was placed in the hands of the Reparation Commission, which is, therefore, to be dissolved only after complete liquidation of the reparation debt.

The Commission, according to the Treaty of Versailles, was to be composed of one delegate and one assistant delegate each from the United States of America, England, France, Italy, Japan, Belgium and Serbia. At the meetings of the Commission the American, English, French and Italian delegates and, as a rule, the Belgian delegate, were to take part and to record their votes. Japan was to participate in and vote on questions of damage at sea, or on questions arising under Art. 260, in which Japan's interests were concerned; Serbia in questions relating to Austria, Hungary or Bulgaria.

The Commission has its principal permanent bureau in Paris, but it may meet at other places, if necessary. The meetings, as

a rule, are private. The chairman, who is to be elected annually, casts the deciding vote in case of a tie. In certain specified cases, and particularly on questions of postponement of German payments beyond 1930, and the interpretation of the reparation provisions, unanimity is necessary.

The Commission was required to give Germany upon application due hearing, particularly on the question of her capacity to pay. It was not to be bound by any rules of law, but was to be guided in its decisions by justice, equity and good faith.

The Commission had far-reaching authority in matters of reparation, and especially power to interpret the Treaty provisions. It was to make periodical estimates of Germany's capacity to pay, and examine the German system of taxation, first, to the end that the sums for reparation which Germany was required to pay should become a charge upon all her revenues prior to that for the service or discharge of any domestic loan; and secondly, so as to satisfy itself that in general the German scheme of taxation was proportionately fully as heavy as that of any Power represented on the Commission. Subject to such exemptions as the Commission might approve, reparations were to be a first charge on all assets and revenues of the Reich and its constituent states (Art. 248).

In lieu of cash payments the Commission might at any time accept chattels, properties, commodities, business rights, concessions, ships, bonds, shares or securities of any kind, at a value to be fixed by the Commission (Annex II., § 19).

The provisions of Annex II. regarding the rights and duties of the Reparation Commission may be changed by unanimous decision of all Governments represented upon the Commission. This right was subsequently exercised in the London Schedule of Payments of 5th May 1921, to change § 19, which is mentioned above.

In case of Germany's default in the performance of any obligations in connexion with reparation, the Treaty provides that the Commission shall forthwith give notice of such default to each of the interested Powers and, at the same time, may submit its recommendations as to the action to be taken in consequence of such default. The measures which the Allied and Associated Powers have the right to take in case of Germany's voluntary default to meet her obligations may include economic and financial

prohibitions and reprisals, and, in general, such other measures as the respective Governments may determine to be necessary in the circumstances. Germany was bound not to regard such measures as acts of war (§§ 17, 18, Annex II.).

These are the frequently quoted provisions of the Treaty regarding *sanctions* which subsequently had such fateful consequences.

In addition to reparation, Germany was further subjected under the Treaty of Versailles to a series of other onerous and indefinite obligations which are neither interrelated between each other nor with reparation, and do not fall under the supervision of the Reparation Commission.

The Treaty, for instance, imposes on Germany the payment of the total cost of maintaining the armies of occupation, beginning with the day of the Armistice, 11th November 1918. The cost was payable in gold marks, except in so far as it consisted of purchases and requisitions in the occupied territory, which latter had to be paid in marks by the German Government. This cost of occupation was a charge on the property and revenues of the Reich and German states prior even to reparation (Art. 251).

The Treaty further provided that Germany should be responsible to the nationals of the Allied Powers for the pre-war debts of her own nationals in so far as those Powers might accept the plan for clearing such claims provided by the Treaty. Debit and credit balances resulting from the operation of the clearing offices were to be adjusted monthly. If Germany was the debtor the German Government was to pay the balance due forthwith to the Allied states, but if the monthly clearings showed a credit in Germany's favour it was to be retained by the Allied states pending full discharge of all German obligations under the Treaty of Versailles.

The creation by the Treaty of mixed arbitral tribunals likewise burdened Germany with obligations indefinite in extent. These courts were to decide, among other things, on all claims for damages suffered by nationals of the Allied Powers as a result of exceptional war measures introduced by Germany.

Finally, the German Government had to undertake to compensate its nationals for losses incurred through the confiscation of German private property in Allied countries, for the Allied Powers reserved the right to retain and liquidate all property, rights

and interests within their territories, including colonies, and even in German territories ceded to them by the Treaty, belonging to German nationals at the time the Treaty became effective. The principal Allied Powers have exercised this right extensively, liquidating for their own benefit German property of a value of many milliard gold marks. Compensation for liquidated property was to be fixed exclusively by the Allied Powers interested. So far as the proceeds from liquidation were not applied to indemnify the respective Allied Powers, or used in the operation of the clearing offices, they were to be credited to Germany on reparation account. Until now nothing has been credited to Germany under this head.

The provisions of the Treaty of Versailles regulating Germany's liability to repair all sorts of damage suffered by the Allies as well as by German nationals imposed upon the German Government a series of absolutely unlimited obligations. Even the burden of reparation proper remained undetermined under the Treaty. The demand that Germany should issue for the present 100 milliard gold marks in bonds carried the implication that the Allies expected to fix ultimately a still higher figure for the reparation debt. But one thing had been determined: that by 1st May 1921—that is, within two years—Germany had to pay the huge sum of 20 milliard gold marks in cash and deliveries in kind. In addition, there was the loss of enormous capital values which had to be surrendered by the Reich and the states, and by the private economy of Germany. And quite apart from reparation they were to pay, as we have seen, the costs of the armies of occupation, the balances from the operation of the clearing offices, the awards to Allied nationals by the mixed arbitral tribunals and the compensation to German nationals for the confiscation of their property in the Allied countries. All of this resulted in a boundless inflation of the German debt, immeasurable as it was in any event. But the worst of it was that all these collateral liabilities gravely impaired Germany's capacity to pay reparation; for the cost of occupation ranked ahead of reparation under the Treaty—anything that Germany was able to pay was first credited against the cost of occupation—and this explains why, from all the cash payments and deliveries in kind actually made by Germany up to 1st May 1921, nothing was left for reparation.

Even at a time when no cash payments were as yet demanded of Germany for reparation she had to pay enormous amounts to various Allied Governments to adjust her monthly debit balances under the clearing operations. The only explanation of this curious fact is that the Reparation Commission, which had been established to supervise the German payments, had no authority over payments demanded of Germany under other sections of the Treaty. It is a fact that some of the members of the Reparation Commission were not aware until the autumn of 1920 that Germany had already paid large sums of money to several of the Powers under the clearing operations.

Especially dubious was the provision of the Treaty whereby Germany was also to repair damages under the decisions of the mixed arbitral tribunals. As a matter of fact, by far the greater part of the damages for which the nationals of the Allied Powers could claim to be indemnified were presented as reparation claims, and included in the large joint bill of the Allies. The introduction of the mixed arbitral tribunals was bound to encourage the filing with these courts of special claims against the German Reich so as to secure a direct award of damages which, in the regular reparation procedure, could be obtained only by the intermediary of the individual Allied Governments. Unquestionably the arbitral tribunals were thus used to carry on private reparation alongside general reparation. In many cases this involved Germany in the risk of being obliged to pay reparation twice.

The piling up of reparation claims against Germany, quite independent of each other, afforded evidence that the Treaty of Versailles was not conceived and written as a unit. The fundamental psychological mistake of the authors of the Treaty was their complete failure to envisage a maximum amount which it might be possible for Germany to pay, or at least to entrust a single body with the supervision of the German payments. This immeasurable obligation under the Treaty was bound to dishearten at the outset the most willing German Government from making really determined efforts toward liquidating the debt. So long as the debtor does not know what he has to pay in all, nor whether he will be able to carry the burden, it will be impossible for him to put forth his best endeavours toward the discharge of his obligations. It is the

fault of the Treaty itself that, in the execution of reparation, it had to come sooner or later to the application of the "sanctions" provided by the Treaty.

The Treaty of Versailles requires of Germany no supply of labour for reconstruction work. This is a peculiar and striking fact, which stands in direct contradiction to the demand that Germany should immediately mobilize her economic resources for the material reconstruction of the devastated territories. All offers of this nature made by Germany in the course of years were either rejected by the Allies as unacceptable, or so treated that no practical results were obtained. The explanation for this attitude is found in the fear of competition arising from the participation of German labourers in the devastated territories, and of the contact of German labourers with the people of the Allied country.

It is to the credit of the German Peace Delegation in Versailles that it correctly discerned from the start the fundamental defects of the peace terms dictated by the Allies and strongly emphasized them in its notes to the Interallied Peace Conference. The German delegation at the time did not confine itself to criticism: it also made counter-proposals, which may not have been acceptable in all points, but which would have offered a suitable basis for negotiations at Versailles if discussions with the Germans had been thought admissible at all.

The German notes and counter-proposals concerning the terms of peace received little or no consideration; they contain, however, much valuable material, which should be preserved from oblivion and find its place in the history of reparation. Some passages from the German proposals are therefore quoted here verbatim.

In the kernel of the German note of 29th May 1919, addressed to the French Prime Minister, Clemenceau, appears the following offer:

"Germany is prepared to make the payments incumbent upon her under the Peace Programme agreed upon, up to a maximum amount of 100 milliard gold marks—that is, 20 milliard gold marks up to 1st May 1926, and the remaining 80 milliards in annual instalments without interest. These instalments are to be in a fixed relation to the revenues of the German Reich and States. The annual instalments will approximate to the former peace budget.

In the first ten years the instalments shall not exceed one milliard gold marks. The German taxpayer shall not be burdened less than the taxpayer in the most heavily burdened State represented on the Reparation Commission."

It is true that the offer was contingent upon the condition that the cession of German territory would be kept within certain definite limits and that Upper Silesia in particular should remain with the Reich, but it certainly proves that Germany was prepared even at that time to go extremely far in making reparation.

The German note further states :

" Germany is prepared to devote her entire economic resources to the service of reparation. She desires actively to co-operate in the restoration of the devastated areas in France and Belgium. To make up the deficiency in production of the destroyed mines in Northern France, there shall be delivered for each of the next five years up to 20 million tons of coal, and for the succeeding five years up to 8 million tons. Germany will enable further deliveries of coal to be made to France, Belgium, Italy and Luxemburg.

" Germany is further prepared to make considerable deliveries of benzol, coal tar, sulphate of ammonia, as well as dyestuffs and chemical drugs.

" Germany sees in the cession of industrial participations, particularly in coal mines for the protection of coal deliveries, a suitable way to a speedy discharge of her liability for reparation."

The following passage from the German note of 29th May 1919 is also of special interest in view of the subsequent occupation of the Ruhr District and of the observations of the experts who originated the Dawes Plan :

" After the pitiful years of world-wide strife and devastation, the peoples of this earth should combine in peaceful co-operation in order to lighten their burdens and promote the speedy reconstruction of the world through mutual assistance.

" The draft of the conditions of peace submitted to us by the opposing Allied Governments does not follow this course. On the contrary, they indulge in the hope that a Germany stripped and repressed by every instrument of political and economic disqualification will be able to do more for their peoples, and relieve them of more burdens, than the Germany which we desire to build up.

"The cost of occupation may be extremely high and unbearable for Germany's weakened finances. To-day the expenses of the foreign troops of occupation, as far as ascertainable at present, exceed the former peace-time budget of the German army and navy. To burden Germany with the cost of a further occupation would be unfair, for the troops of occupation would be a part of the enemies' peace-time armies, the support of which should be borne by the enemy powers.

"A military occupation would be the more disastrous because any occupation has a most injurious economic effect, which might easily be aggravated by interference of the troops of occupation in the administrative and economic domain.

"The taxing power of Germany and her ability to pay are dependent upon a uniform administration of the taxable territories remaining to Germany. The authority of the German Government with regard to the collection of taxes, customs, etc., can be re-established only after the troops of occupation have been withdrawn from the country. Even the Armistice has brought about chaotic conditions in the territory on the left of the Rhine in regard to imports and money transactions. An occupation extending over many years, coupled, as planned, with the introduction of a special customs system, would deprive Germany of the possibility of a clear economic and financial policy.

"In the peace proposals frequent reference is made to the liability of the Reich to make compensation for private property which is to be expropriated in favour of the Allied and Associated Powers, without considering that the merely technical aspect of the currency problem sets a limit to this method. The placing of German Government loans, either at home or abroad, in any large amounts will not be possible in the near future; any compensation, therefore, will be possible only by a large issue of paper money. The serious inflation that has already developed would increase without check if the proposed conditions of peace were to be carried out. Nor can deliveries in kind on a large scale take place unless the Reich refunds the value thereof to the producers, involving a further issue of paper money. As long at these deliveries continue, therefore, a stabilization of the German currency, even on the present level, would be out of the question. The mark would steadily continue

to depreciate. Monetary instability, however, would not affect Germany alone, but all exporting countries; for Germany, with the continuous depreciation of her currency, would be an element of disturbance, incessantly throwing her products on the market at ruinous prices.

"In the draft of the conditions of peace the manifold desires of all the countries who have been at war with Germany have been mechanically added up; no uniform basis exists, and contradictions accumulate from chapter to chapter. If this mechanical addition is not revised the economic body which has to carry the burden must collapse. An organic solution could be found only in a common consideration by all participants of all the questions involved.

"The proposals of the Allied and Associated Governments are absolutely impossible of execution in their present form and amount, and assuming that the provisions could be forced upon Germany the result would be a sad disappointment to our present opponents. This would become evident with the first instalment of 20 milliard gold marks, the immediate payment of which is provided for in the draft of the conditions of peace. After deducting the cost of military occupation accruing in the meantime, and the very considerable amounts necessary to provide Germany with the most necessary food and raw materials, little, if anything, would remain for payment of reparation."

This prophetic forecast was substantiated by the course of events in practically every point.

The economic and financial experts who represented Germany at Versailles had not only the ability but the honest desire to make a reasonable reparation settlement. The Allies could very well have found in Versailles a proper basis for peace by co-operation with the German delegates, but all German efforts during those fateful days were doomed to failure because political delusion tolerated no negotiations with Germany, and allowed coercion to have the upper hand.

The German counter-proposals were rejected, almost without exception, in President Clemenceau's covering note of 16th June 1919. On the same day the German delegation left for Weimar, in order unanimously to recommend its Government to reject the terms of peace. It arrived at this decision because it saw no possibility

of fulfilling the demands of the Allies. The great majority of the representatives at Weimar shared the view of the delegates that the Treaty could not be executed. Nevertheless, after a severe struggle, a majority was finally secured for the acceptance of the Treaty as presented, because, under the threat of the advance of the Allied armies into the unoccupied German territory, the signing of the Treaty appeared to be the only means of preventing the disintegration of Germany and the reign of Bolshevism.

Thus it came that, under Allied pressure, the Treaty of Versailles was signed by a new German Government on 28th June 1919, and confirmed by law as early as 16th July 1919.

Without waiting for the ratification of the Treaty in the Allied countries, a deputation of the German Peace Delegation that had remained in Versailles opened a series of discussions with the French Minister, Loucheur, with respect to the participation of Germany in reconstruction, the provision of food for Germany and the beginning of coal deliveries to France.

CHAPTER III

THE CONSTITUTION OF THE REPARATION COMMISSION

As the Reparation Commission could not be constituted until after the formal ratification of the Treaty in the Allied countries, an Organization Committee of the Reparation Commission, under the chairmanship of Loucheur, was first of all set up. The German Government forthwith created, for permanent intercourse with the Reparation Commission, a special body—the Kriegslasten Kommission—the chairman of which was a permanent delegate in Paris.

The Treaty of Versailles did not come into force until 10th January 1920. The long delay was due to President Wilson's inability to obtain from Congress the ratification of the Treaty. The Allies had continually deferred action pending acceptance of the Treaty by Congress, but they were finally obliged to put it in force without the co-operation of the United States. America, therefore, is not represented officially in the Reparation Commission, but two "unofficial observers" of the American Government have been co-operating from the start with the Commission—though only in an advisory capacity. A. Rathbone, Roland W. Boyden and James A. Logan, in their delicate position as "observers," for several years rendered most valuable assistance in the various negotiations which took place, and in many instances they were called upon to arbitrate questions in dispute. This activity, however, could not satisfactorily replace official co-operation by American delegates, with equal rights, in the Commission. The provisions of the Treaty presuppose the participation of the United States in the Commission. Everywhere in the Treaty the American members of the Commission are mentioned first. Five members with voting powers were to sit in the Commission. If America fell out, only four members remained. In fact, the Commission's decisions have always been reached by the vote of only four members—namely, the delegates of Great Britain, France, Italy and Belgium.[1] It stands

[1] In a few cases the delegate of Japan participated in place of the Belgian delegate.

to reason that the absence of America materially affected the relative importance of the votes and the influence of the Powers represented on the Commission. America was to have assumed the chairmanship of the Commission. This would have been in keeping with the political and economic position of the United States as well as with the principle laid down in the Treaty that the procedure of the Commission should be guided by justice, equity and good faith. Among all the Powers participating in the war, America was the least partisan or prejudiced in her attitude toward the struggle. Under her chairmanship it would have been best possible to apply the principles of justice and equity. An impartial leadership was all the more called for because the Reparation Commission was invested with far-reaching authority which, in theory at least, amounted to a dictatorship over Germany. In all important cases, except where the Treaty expressly required unanimity, the vote of the American delegate would have been the deciding factor. The absence of America had the effect of throwing the chairmanship and predominant influence in the Commission to France. Up to a certain point this was justified, as France had suffered the heaviest damage and had a claim to receive the largest share of reparation, but it had the important psychological disadvantage of emphasizing as sharply as possible the natural antagonism between the Commission and Germany. The feelings of hatred, bitterness and fear against Germany, bred by more than four years of war on French soil, were bound to be reflected in the Commission's deliberations when once France enjoyed decisive influence. But as a result of this development Germany's disposition and feelings with regard to the Reparation Commission were also influenced adversely. With the United States occupying the chair, the great majority of the German people could have believed that justice and equity would really be the guiding principles of the Commission. With French influence preponderant it can only too readily be understood that Germany forthwith looked upon the Commission as an enemy, from the power of which it sought to escape at the first opportunity. We shall have frequent occasion to recur to this phenomenon. At any rate it is undeniable that, through the rejection of the Treaty of Versailles by America, the Reparation Commission was constituted on a faulty and defective basis, and its usefulness impaired from the start.

For general political reasons Germany did not deem it expedient at the time to protest against the constitution of the Reparation Commission as being at variance with the provisions of the Treaty, or to raise objections against the Commission proceeding with its work without the co-operation of American members.

The Reparation Commission functioned for about five years without America's official participation. In the circumstances it could not, from the outset, assume the dominating position designed for it by the Treaty; it was unable to maintain its independence either as regards Germany or the Allied Powers. Instead of reconciling the conflicting interests of the several Allies within its council, and reaching uniform decisions on the basis of economic reason, the Commission was compelled, under political pressure, to leave the decision in all disputes of real importance to the Allied Powers, who encroached more and more on the Treaty rights of the Commission at one conference after another. During the entire period of the Ruhr Occupation the Commission was without significance, and practically without work. Only when the Commission appointed the Committee of Experts who devised the Dawes Plan did it resume the initiative and acquire lasting merit. By this action, it is true, it resigned in fact its creative activity to the Dawes Committee, but this renunciation was necessary because the problem of reparation could be brought nearer a solution only by active American co-operation, and because American influence could not be brought into play in the Commission itself but only within the Committee of Experts. Thus after a long and devious journey the object which the authors of the Treaty of Versailles had in mind—*i.e.* the settlement of reparation under American leadership—was finally reached.

CHAPTER IV

DELIVERIES IN KIND UP TO THE CONFERENCE AT SPA

As payment of the first 20 milliard gold marks under the Treaty of Versailles was not to be completed before 1st May 1921—that is, not for nearly two years—the question of cash payments on reparation account remained at first in the background.

The Organization Committee of the Reparation Commission, and later the Commission itself, directed their efforts primarily to obtaining deliveries in kind from Germany as soon as possible. The German Government endeavoured, in the first instance, to create an organization under which German contractors and German labourers could participate in the work of reconstructing the devastated areas. For this purpose the office of a Reichs Commissioner for Reconstruction was created in Berlin, and later, in the autumn of 1918, a special Ministry for Reconstruction. Negotiations regarding German participation in reconstruction work throughout the year 1919 were practically without results. What gave particular offence to France was the idea that the German labourers were to have their trade union organizations in France; furthermore, any offer of participation by German contractors in reconstruction work was flatly rejected. Only the restoration of the coal mines in Northern France destroyed in the autumn of 1918 at the time of the retreat of the German armies was seriously discussed for some time between Loucheur and the German Commissioner for Reconstruction. The German offer to place the mines in operating condition was finally rejected by France on account of unsatisfactory terms.

It may be that with more energy and less bureaucratic clumsiness an agreement between the French interests and the German contractors might have been reached, but it is, at any rate, to be regretted that so favourable an opportunity for the direct reparation of war damages was allowed to pass.

As early as July 1919 Loucheur urged the immediate delivery of certain German commodities, especially coal. The German Government gave its ready assent, although it would have been

perfectly entitled to refuse any deliveries under the Treaty as long as it was not yet in force. Germany wished thereby to give proof of her willingness to make reparation and to show that she placed the fulfilment of the obligations assumed by her above legal technicalities. Immediately after the signing of the Treaty, German and French representatives, therefore, entered into negotiations regarding various deliveries in kind. In addition to coal, the negotiations covered ammonia, benzol, sugar-beet seed, seed oats, etc., etc. Seed oats for the devastated areas were delivered to France in considerable quantities as early as the autumn of 1919—that is, before the Treaty became effective.

As already stated, however, the main interest centred on the delivery of coal. After extensive preparatory work a protocol was signed in Versailles, on 29th August 1919, in which Germany, without prejudice to the provisions of the Treaty regarding coal deliveries, agreed to start them as early as 1st September 1919. The advance deliveries were to be credited against the deliveries falling due after the ratification of the Treaty, and in consideration of such advance deliveries the Organization Committee agreed to recommend the Reparation Commission to fix the monthly coal deliveries from the date on which the Peace Treaty went into force until 30th April 1920 at only 1,660,000 tons. Should the monthly production of German coal exceed 9,000,000 tons, then the reparation deliveries were to be increased by 60 per cent. of the excess output. Germany did not assume any obligation in the protocol for advance deliveries of *fixed monthly quantities of coal.*

As the question of German coal deliveries very soon gave rise to serious conflicts with the Allies, critics have not been wanting who question the wisdom of having started deliveries in advance of the ratification of the Treaty. Undoubtedly Germany might have stood squarely on her legal rights and declined to make any deliveries before the Treaty went into effect. This would have been of practical importance for the reason that under the Treaty the Commission had to give 120 days' advance notice of all deliveries after 1st January 1920. Legally, therefore, the Commission could not demand any deliveries of coal prior to 10th January, the date the Treaty became effective, and deliveries would have commenced only 120 days later, or on 10th May 1920, at the earliest.

Now the coal situation in Germany, immediately after the war, as in fact in all European countries, was very unfavourable. The persistent shortage of coal from which the peoples had suffered during the last years of the war did not at once improve after the conclusion of peace. For the recovery of the German economy it was essential to use the entire German coal production for consumption at home. It is true that the German Government had undertaken during the Armistice, on 25th December 1918, by the so-called Luxemburg Protocol, to supply at once the iron industry of Lorraine with coal and coke, but this did not involve any very large quantities. The agreement of Germany to make advance deliveries of coal and coke to the Allies represented a heavy sacrifice by German economy, and a special effort for reparation which the Allies should have recognized. The protocol of 29th August 1919, of course, gave Germany some protection against excessive demands by the Reparation Commission, inasmuch as, up to 30th April at least, deliveries to the Allies were not to exceed 1,660,000 tons monthly, while, if full advantage were taken of the provisions of the Treaty, monthly deliveries of $3\frac{1}{3}$ million tons might have been demanded. It was impossible, moreover, to foresee in August 1919 that the ratification of the Treaty of Versailles would be delayed so long. It was, therefore, entirely consistent with the German interest to make an early start with deliveries, so as to avoid being taken some day unawares by impossible demands.

Thanks to the expert assistance given to the German Government by the German Coal Syndicate, whose director, Luebsen, took a prominent part in the negotiations with the Allies, coal deliveries started to move forward by 1st September 1919. They soon increased to about 700,000 tons per month, and reached a total of over 2,500,000 tons by 10th January 1920. But as France's coal requirements were not fully covered even with these heavy shipments, complaints regarding the insufficiency of German deliveries never ceased. At a conference held in Essen, in December 1919, monthly deliveries of 1,000,000 tons were agreed upon, but —owing to strikes, and the rising of the Rhine—deliveries for January were much below this figure.

After the ratification of the Treaty of Peace the Reparation

Commission notified the German Government that coal deliveries should continue until further notice in accordance with the protocol of 29th August 1919. But on 10th February 1920 the Commission, after crediting the advance deliveries made, fixed the monthly quantities at 2,234,000 tons. At the same time Germany was notified that out of the coal production of Upper Silesia, which, pending the plebiscite which was to decide the attribution of that district to Germany or to Poland, remained under the control of the International Plebiscite Commission, 200,000 tons were to be delivered monthly to Austria, 250,000 tons to Poland, and 20,000 (later 40,000 tons) to Italy, and that Germany should then receive from Upper Silesia only the surplus coal remaining above Silesia's home consumption. This drastic increase in the programme of deliveries was at variance with the agreement concluded with Loucheur, but Loucheur had in the meantime withdrawn from the French Government on the fall of the Clemenceau Cabinet. He was succeeded first by Jonnart and, later, until 19th May 1920, by Poincaré, as chairman of the Reparation Commission.

The situation was aggravated by a note of the French Prime Minister, Millerand, of 8th February 1920, in which he complained bitterly of the insufficiency of German coal deliveries. Germany declared to the Reparation Commission that the new demand for coal was impossible of fulfilment. This led to lengthy discussions in Paris, in the course of which the Commission, on 31st March 1920, fixed the deliveries for April at 1,440,000 tons. In the meantime conditions had not improved in Germany as regards production and transportation. The Rhine floods continued through February, and in March the recoil of the revolutionary attempt of Kapp brought on serious communistic disturbances in the Ruhr District. In consequence the deliveries for March and April did not increase materially. On 29th April the Reparation Commission fixed deliveries of coal for May at 1,925,000 tons, for June at 2,062,000 tons, and for July at 2,175,000 tons. These figures were unreasonably high. They were in no way approved by members of the Commission who had fully discussed the coal situation with the German representatives. How far the official demand of the Reparation Commission was prompted by political influence can remain an open question; the fact remains that the

Commission itself expected only a gradual increase in the deliveries and not a complete fulfilment of its coal programme. When, at the end of May 1920, I was able to inform a member of the Reparation Commission that for the month of May deliveries of coal would probably reach a total of 1,000,000 tons, I was told that it was very gratifying and that, if my expectations were realized, the Commission would announce officially that Germany had made an effort which entitled her to gratitude.

A word regarding the German intercourse with the Reparation Commission may here be inserted. At first it had entirely the character of a court martial before which the German representative appeared as accused, and was treated as such. After one such session under Poincaré, in February 1920, I declared to some of the members of the Commission that I would not submit to such treatment, and that upon a repetition of it I would leave the meeting. I stated that I had accepted the office of German representative with the Commission to facilitate, if possible, by reasonable and business-like discussion, the solution of the difficult task of reparation; that this was impossible in official meetings and negotiations governed by the procedure of the courts; that I was always at their disposal for reasonable discussions, but not for court sessions. This had its immediate effect. Gradually an informal and open intercourse developed between most members of the Commission and myself, in which both parties endeavoured to do justice to the needs and to the viewpoint of their opponents under the Treaty. High politics alone continually tore the threads which we had carefully spun, and which we had to reknit after the thunder and lightning of the political storm had spent its fury.

In the midst of these developments came the note of the Reparation Commission of 29th May 1920, increasing, under certain conditions, the delivery of Upper Silesian coal to Poland from 200,000 to 450,000 tons per month. The occasion for this measure was the increased requirements of Poland, which was then at war with Soviet Russia. The German receipts of coal from Upper Silesia, small as they were hitherto, were thereby still further reduced unbearably. The German Government took the stand that the Reparation Commission had not authority to regulate coal deliveries

from Upper Silesia, and resorted to the arbitrary counter-measure of reducing the daily deliveries for reparation from the Ruhr District by 10,000 tons. Notwithstanding repeated warnings from the German representatives in Paris, the German Government adhered to this measure, even when the Reparation Commission officially inquired whether the reduction of deliveries, of which it had had private information, was a fact. When this had to be confirmed, on the plea of the German distress, the storm broke! In accordance with §§ 17 and 18 of Annex II. to Part VIII. of the Treaty of Versailles, the Reparation Commission notified the Allied Governments, on 30th July 1920, that Germany had voluntarily defaulted in the performance of her obligations with respect to deliveries of coal. The Allies put the incident on the programme for the Conference at Spa.

In addition to the quantities of coal, two other points were thoroughly discussed at Paris in the hearings on the coal question in March and April 1920. One was the price to be credited for reparation coal. About one-third of the coal intended for France was carried by Rhine barges to Rotterdam and was there transferred to sea-going vessels. Germany demanded for this coal the German or English *export* prices as fixed by the Treaty of Versailles for deliveries of coal by sea, which, owing to the rapid decline of the mark at that time, were many times higher than the German *inland* price. The majority of the members of the Reparation Commission accepted the German contention, but the French delegation desired to apply the ridiculously low German inland price, so far as possible, to all coal shipments, and refused to recognize shipments via Rotterdam as deliveries by sea.

The second point concerned the transportation of coal on the Rhine itself. The German Coal Syndicate, which furnished the transportation on account of Germany up to the frontier of the receiving country, insisted that it must have the Rhine transportation entirely under its control in order to guarantee prompt delivery. It declared its readiness even to charter some French barges for the transportation, in accordance with general commercial usage, but French shipping interests insisted upon a *pro-rata* division of coal shipments.

Both issues had an unfavourable influence on the coal negotiations. They never were carried to any final decision within the Reparation Commission, but were adjusted as between Germany and France only in the Agreement of Wiesbaden of 7th October 1921, which satisfied the French demands in their essential points.

CHAPTER V

THE CONFERENCE AT SPA

SHORTLY after the Treaty of Versailles was put in force the Prime Ministers of the principal Allied Powers, at the suggestion of Lloyd George, entered into communication with one another with a view to fixing the amount of the reparation debt, which had been left open in the Treaty of Versailles. Lloyd George, who at Versailles had been unable to make his more moderate views prevail with the French, believed that the time had now arrived for a final settlement of the problem by means of discussions between the Allied Powers in which Germany should participate. Under the chairmanship of the Italian Prime Minister, Nitti, the first discussion of the Allies took place at San Remo, from 19th to 26th April 1920, and, though this conference was without tangible results in reconciling conflicting views, it led to an invitation to the German Government on 26th April to a conference at Spa. The form of the invitation is so significant that it deserves to be quoted. The request of the German Minister of the Reichswehr, addressed to the Supreme Council, to be allowed to maintain an army of 200,000 men, instead of 100,000 men as provided by the Treaty, furnished the ostensible motive for the invitation. This request was rejected, with the following comment:

"Germany has failed to meet its obligation. This applies to the destruction of war material as well as the reduction of the standing army, deliveries of coal and reparation and the cost of maintaining the army of occupation. Germany has neither given satisfaction nor offered excuses for the repeated attacks upon members of the Allied missions; nor has she taken steps in conformity with the protocol of the Peace Treaty to define her obligations for reparation, and to make proposals so that the total amount to be paid by Germany may be fixed, notwithstanding the urgent interest which a settlement of this character has for all parties concerned. Germany does not appear to have even considered how she is to meet her obligations when mature.

"The Allies do not deny the difficulties confronting the German Government, and have no desire to force upon Germany a too

narrow-minded interpretation of the Treaty of Peace, but they are unanimous in the declaration that a continuation of the infractions of the Peace Treaty of Versailles cannot be tolerated; that the said Treaty must be executed; that it forms the basis of the relations between Germany and the Allies; and that the Allies are determined to adopt any measure to ensure the execution of the Treaty, *even if it should become necessary to proceed to the occupation of an additional part of German territory*. For the remainder, the Allies declare that they have no intention to annex any part of German territory. The Allies believe that the questions which have arisen from the infractions of the Treaty of Peace and the measures necessary to safeguard its execution can be adjusted more readily by an exchange of views between the respective Governments than by means of notes. The Allies have therefore decided to invite the heads of the German Government to a direct conference with the heads of the Allied Governments."

It is evident that all the signatories have contributed something to this note: reproaches and threats, in keeping with the French method of dealing with Germany, but at the same time a well-intended appeal to the better judgment of the "culprit" in the more moderate language of the other framers of the note.

The Conference at Spa was originally set for 25th May, but was postponed until 5th July 1920, partly, it is probable, on account of the German elections to the Reichstag. In the meantime the Allied Prime Ministers met twice at Hythe, on 15th May and 19th June 1920, but without reaching any agreement of principle on reparation. It was decided, however, to nominate a commission of experts to prepare a schedule under which Germany should pay each year a certain minimum sum, and additional sums depending on the improvement in her capacity to pay.

Of more importance was the next meeting of the heads of the Allies, at Boulogne, on 20th June 1920. Here a plan was adopted, based on the work of the experts, which was for a long time kept secret. The outstanding features of the Boulogne plan are as follows:

(*a*) Germany pays:

1. From 1st May 1921 for forty-two years, a fixed annuity of 3 milliard gold marks.

2. From 1st May 1926, for thirty-seven years, an additional annuity of 3 milliard gold marks for five years and 4 milliard gold marks for the succeeding thirty-two years, or a total of:

from 1st May 1921 to 30th April 1926 (5 years) 3 milliard gold marks per annum;

from 1st May 1926 to 30th April 1931 (5 years) 6 milliard gold marks per annum;

from 1st May 1931 to 30th April 1963 (32 years) 7 milliard gold marks per annum;

or an aggregate of 269 milliard gold marks in forty-two years.

(*b*) The Reparation Commission is authorized to grant partial postponement of the additional payments. Germany is allowed a discount on advance payments, beginning with 8 per cent. and decreasing to 5 per cent within six years; the Reparation Commission, however, is authorized to maintain the full rediscount rate of 8 per cent.

(*c*) Germany is to float international loans for reparation. The Reparation Commission may allot Germany for her own needs 20 per cent. of the proceeds of such loans. An international commission is to be constituted for the German foreign debt. The security for these loans shall consist of:

1. German industrial securities up to 5 milliard gold marks and other securities offered by Germany and approved by the Reparation Commission.
2. All German customs. Changes in the customs tariff and regulations are made contingent upon the approval of the Reparation Commission. Payment of customs duties is made to a General Receiver to be appointed by the Reparation Commission. The Reparation Commission is authorized to increase the customs tariff.

Prior to the meeting at Spa, the Allied Prime Ministers met in Brussels, on 2nd and 3rd July 1920.

The decision of the Allied Governments to fix the reparation debt by means of negotiations infringed the authority assigned to the Reparation Commission by the Treaty of Versailles. It is not known whether the members of the Commission ever made any representation to their respective Governments regarding the

curtailment of their rights. Poincaré alone drew the logical conclusion when he resigned his office as chairman and member of the Reparation Commission on 19th May 1920. Strange that the self-same Poincaré who later, as Prime Minister, always influenced and directed the French delegates in the Reparation Commission according to his own will, publicly justified his resignation from the Commission at the time on the ground that the Allied Governments were attempting to rob the Reparation Commission of its Treaty rights! It is true that it then seemed as if the Allied Governments were endeavouring to settle the reparation question by reducing the German debt, while Poincaré at all times stubbornly defended the strict enforcement of the Treaty rights of France. His successor on the Commission was Louis Dubois.

The fact that the most important task of the Commission was snatched out of its hands by the Allied Governments themselves, and thereby withdrawn from the quiet atmosphere of the Commission into the whirlpool of high politics, did much to lower the prestige of the Commission and to create the impression that the Commission was more or less a political tool in the hands of the Allied Powers. In Commission circles there were certainly no delusions about the situation, and not all of its members were content to remain passive. Some of them made an earnest effort to lead the development of reparation into normal channels and to make expert preparations, once the call had gone forth for the conference, in close touch with the German representation in Paris.

I had frequent occasion at that time for full discussions with most of the members of the Commission. They did not believe that anything practical affecting reparation would be accomplished at Spa. The majority would like to have fixed as speedily as possible a lump sum to represent Germany's total reparation debt, but French public opinion, dominated by the Foch-Poincaré policy, was opposed to this course. The Reparation Commission nevertheless entertained the hope that the passage of time and a full discussion would ultimately effect a change in the French attitude. I was requested confidentially to submit German proposals for the settlement of reparation. Upon being asked whether we in Germany had considered any definite amount at all as an offer, I declared at that time that here and there an annuity of one milliard gold marks for thirty years had been

mentioned. To this I received the reply that such an offer must on no account be made public; that it would only arouse general indignation and interfere with a sensible treatment of the question. As a matter of fact, such an offer was being drafted in Germany at the time in preparation for Spa, but fortunately the Conference never came to the point at which figures were called for. It was evident that at that time the Commission did not intend to relinquish to the Supreme Council the solution of the financial problem; it expected, rather, that the Conference at Spa would help to bring about direct contact and a better understanding with the German Government, without involving any important change in the duties of the Reparation Commission. In Germany, it must be admitted, the inclination always was to ignore the Reparation Commission and rather to negotiate directly with the Allied Governments. For my own part I always deprecated this policy, on the ground that the final decision of the Allies would in any case be taken in close conjunction with the Commission, and because the actual administration of reparation had to be carried out not by the political chiefs but by the expert members of the Reparation Commission. It was therefore useless and, moreover, unwise to offend the Commission by ignoring it. Later developments, unfortunately, furnished ample proof that my apprehensions were well founded.

At a confidential discussion between Dr Carl Melchior and myself and several members of the Reparation Commission, on 9th June 1920, it developed that a German offer would eventually have to be made at Spa, but that it would have to be handled with caution. We were told that should the German delegation at Spa declare that, with the prevailing disorder in Germany's political and economic conditions, an offer was impossible at the time, Germany might again be suspected of hanging back and offering passive resistance, which would strengthen the extreme nationalist elements, especially in France and England. On the other hand, any formal offer by the German delegates would have to be kept within the limits of Germany's prospective capacity to pay. There would be such a gap between the figures of the German offer and the amounts continually spoken of in France and England that a summary rejection, and possibly a crisis in the negotiations, might result. A way out of the difficulty might perhaps be found through

an offer from Germany of a minimum amount, with additional payments based on any improvement in German conditions.

Thus originated the idea of the "Besserungsschein."[1] The question of finding an index for the participation of the Allies in an improvement of German economic conditions was thoroughly discussed. What suggested itself as the most expedient method was a sort of special index based on specific data of German economic statistics—as, for instance, the yield of the income tax, the surplus revenues of the Government railroads, the excess of exports over imports, etc., all in conjunction with the prevailing rate of exchange of the mark.

We were warned not to assume that sentiment in England was much better disposed toward us than in France. Although Government circles and leading economic authorities in England fully appreciated the situation, public opinion there did not differ materially from that in France.

That extreme caution was necessary in appraising the situation also appeared from conversations we had at the time with well-informed Americans. They advised us not to come forward immediately with a definite offer at the Conference at Spa, but first to give an accurate description of our actual economic and financial situation, and not to make an offer except under urgent pressure from the Allies. There was a growing appreciation in Allied circles of the distress in Germany, and in view of these circumstances it would create some surprise if we came forward with a definite offer. This might easily lead the suspicious Allies to the assumption that we were trapping them, and that we were in a position to do a great deal more than we at first offered. It would further be necessary to indicate not merely, as hitherto, the negative effects of the German deliveries and cessions made so far under the Treaty of Versailles, by pointing out how these efforts and losses had paralysed German economic life and sapped its capacity to make reparation; we should also emphasize their positive aspect, and demonstrate how the several Allies had been enriched by these German deliveries and cessions, and how their own economic life had been supported at

[1] "Besserungsschein" is the technical term in German law for the written promise of a bankrupt debtor, given on a general settlement, to make additional payments to the creditors as and when his position improves.

the expense of Germany. Viewed in this light, the surrender of Alsace-Lorraine with its industrial resources, and of the agricultural territories of Posen and West Prussia, the loss of the German merchant marine, of the colonies, and of all German property, rights, and interests abroad, the delivery of railway material, coal, cattle, horses, etc., would appear as enormous sacrifices which, appraised at their real value, constituted a war indemnity unprecedented in history.

These confidential discussions, which were meant cautiously to prepare the ground for intelligent negotiations between the two parties at Spa, were blown to pieces by the explosion over the coal deliveries.

To make the disaster complete, just at this juncture the Reparation Commission, and especially the British members, were greatly excited by the news that certain Dutch vessels which the Allies had asked to have delivered to them under a special provision of the Treaty of Versailles had left their German port and sailed for Holland. These vessels had been built in Germany, but had been sold during the war, while under construction, to Dutch shipowners. Germany, however, had had to undertake in the Treaty of Versailles to adopt all necessary measures, in accordance with the directions of the Reparation Commission, to assure the Allies full title of ownership to the ships. This, of course, was impossible in international law, as far as the rights of the Dutch owners were concerned. Nevertheless, after one of the ships had already left a German port under the Dutch flag, Germany had promised to detain the other ships in the German port until the question of ownership was decided. Since then several months had passed without any further steps on the part of the Reparation Commission, and one fine morning the remaining ships also left port. The German delegation in Paris was taken to task; their explanation that the German Government did not know whether the ships had sailed with regular clearance papers, and that moreover it had no authority over Dutch ships, was considered an affront; in short, there was a most passionate outburst against Germany in the Commission. Some months later a member of the Reparation Commission privately informed us that upon closer investigation it was found that Germany was within her rights. Nothing further was heard of the matter.

To add to all this, certain German authorities chose this moment to interrupt the deliveries of horses to Belgium without first conferring with the Belgian representative in the Reparation Commission. The Commission was now so thoroughly exasperated that it was no longer possible to negotiate with it reasonably.

All this happened within a few days prior to the Conference at Spa. In Germany a change of Government had just taken place. The new Cabinet, headed by Chancellor Fehrenbach, was as yet entirely unaware how bad the prospects for Spa had become. It was firmly persuaded that it would have an opportunity to discuss reparation thoroughly with the Allied Governments and to submit a formal offer.

In inviting Germany to the Conference, the Allies had pointed out that Germany had neglected to submit plans and proposals for expediting reparation. The Protocol of the Treaty of Versailles had set a time-limit for this purpose of four months, commencing with the signing of the Treaty. The German Government was of the opinion that this was one of the time-limits which started only from the date when the Treaty had become effective, and accordingly transmitted to the Allied Governments and to the Reparation Commission in May 1920 two documents containing the German estimates of the war damages in Belgium and France. The damage in France was computed at 7,319,240,000 gold marks, and that in Belgium at 2,187,992,000 gold marks. The German Government had further declared that, following the wishes of the Supreme Council, it would submit its proposals for reparation at the Conference at Spa. To prepare the discussion, it presented to the Allied Governments memoranda on Germany's capacity to pay, and on the tax burden in Germany, together with a full report drawn up by German experts on Germany's economic condition.

Germany was represented at Spa by Chancellor Fehrenbach, the Foreign Minister, Dr Simons, and a number of other ministers, as well as by a number of economic and financial experts. The Conference was held under the chairmanship of the Belgian Prime Minister, Delacroix. Of the Allies, Belgium, England, France, Italy and Japan were represented. Military disarmament and the prosecution of the so-called war criminals took first place on the agenda. As may be imagined, this programme did not tend

to improve the atmosphere for the consideration of economic questions.

The German delegation was completely isolated in its quarters above Spa. It met the Allied delegates only in the conference-room, and was treated with frigid reserve. For four days, in steadily increasing excitement, the question of disarmament was discussed, until finally a protocol was drawn up in which the Allies extended the time-limit for the reduction of the German army to 100,000 men until 1st January 1921, but threatened that the Ruhr or other German territory would be occupied as a sanction for any eventual non-compliance with the military provisions of the Treaty. This led to violent controversies over the right of the Allies to resort to such measures, which were not authorized by the Treaty of Versailles.

With respect to the war criminals, a rather harmless protocol was readily agreed upon. Then at last, in a state of general tension, the discussion of coal deliveries was broached.

The German delegates were requested to give their explanation of the unsatisfactory deliveries of coal. This unenviable task fell to me. After my brief presentation of the facts the storm broke, with an emotional speech by the French Prime Minister, Millerand. He made the arbitrary reduction in coal deliveries from the Ruhr districts the occasion of a sharp impeachment of the German attitude on the coal question. The fact that, despite the serious economic strain, Germany had started coal shipments in advance, and delivered very considerable quantities, received no consideration before this political tribunal. Millerand concluded his speech with the notification of a decision by the Supreme Council according to which Germany was to grant absolute priority to reparation coal over all shipments for Germany's own needs, and was to submit to a strict control over the distribution of German coal production. The following day Minister Simons had occasion to explain the German standpoint. He was able to state that the reduction in coal deliveries complained of had been stopped prior to the Conference at Spa, by the new German Government. Speeches were also made by Hugo Stinnes and Hué, representing German business and German labour. The speech of Stinnes, which started with the words, " I have risen in order to look all my adversaries in the eye," and in which he spoke of the " madness of the victors,"

created tremendous sensation. Owing to its extremely harsh tenor, it did much harm to the German cause at Spa, but it can be explained by the irritation and bitterness aroused among the German delegates by the fact that on account of a single political blunder (for that is all that was involved) the entire German attitude on the question of reparation was condemned root and branch.

The relations between the Allies and Germans were strained to the breaking-point. In a square in the town of Spa a Belgian officer struck an inoffensive German newspaper correspondent in the face with a horsewhip. It seemed as if the whole Conference was about to explode, but the discussions continued. The Allies declared that they would reduce the deliveries of coal for the time being to 2,000,000 tons per month. When the German delegates answered that such a demand was impossible of fulfilment, and submitted counter-proposals providing for a smaller amount, the occupation of the Ruhr District was again threatened. In a private conversation with Dr Simons, Lloyd George left no doubt that in case of Germany's refusal the Allied armies would march into the Ruhr territory. In the internal conflict which developed on this point within the German delegation, part of the experts under Stinnes were in favour of letting things come to the occupation of the Ruhr, because they believed that after a few months at the utmost the Allies would withdraw again without having obtained any results. Against this the opinion prevailed that it would be impossible to take the responsibility of exposing the unoccupied parts of Germany in the coming winter to a food and coal famine with its attendant danger of political disruption, while, with a sufficient supply of food and coal, the Ruhr District itself would probably not fare so badly under Allied rule. Amidst indescribable excitement a coal protocol was signed at last, on 16th July. Even the last hour was critical, because the German delegation stubbornly refused to sign a passage which provided that in case of insufficient deliveries the Allies would occupy the Ruhr District. Finally it was agreed that the Germans in affixing their signatures should make a reservation regarding this provision.

By the protocol of Spa, Germany undertook to place at the disposition of the Allies 2,000,000 tons of coal monthly, for a period of six months from 1st August 1920. The German

internal price of the coal was to be credited to reparation account, and, in addition, a premium of 5 gold marks per ton was to be paid in cash for the purchase of foodstuffs for the German miners. An exception was made in the case of deliveries by sea, to which the terms of the Treaty continued to apply. The apportionment of Upper Silesian coal, which played an important part at Spa, was to be adjusted by a special commission. Another commission at Essen was to ascertain how the conditions of the miners with respect to food and clothing might be improved. Most important of all was the fact that the Allies agreed to grant Germany cash advances on the coal to be delivered under this protocol to equalize the difference between the German internal price and the export price. Interest on these advances was later fixed at 6 per cent., and repayment for 1st May 1921. During the operation of the protocol of Spa a delegation of the Reparation Commission was installed in Berlin for the control of coal deliveries.

Immediately after the signing of the protocol the Conference dissolved. It had lasted twelve full days and important affairs of state called Millerand back to Paris. Reparation, the most important subject of the Conference, had hardly been mentioned. At one of the meetings Dr Simons declared that Germany had an important interest in seeing her debt determined before 1st May 1921, but that owing to lack of cash she could only make deliveries in kind for the present. He submitted a plan for the organization of deliveries in kind which had for its object an equitable distribution of the orders among the industries and crafts. He further submitted a proposal under which the reconstruction of the devastated areas would be carried out by an international settlement scheme through a syndicate of contractors. Neither proposal was of much practical value, nor did they receive any further attention. Finally, the German delegation presented so-called financial proposals, in which it was pointed out that the 20 milliard gold marks payable on 1st May 1921 were more than covered by German deliveries and payments so far made. A summary of such deliveries and payments, submitted at the same time, showed a total somewhat in excess of 20 milliard gold marks. For the rest the financial proposals were confined to the discussion of general principles; Germany's annual payments were to consist of fixed minimum payments, including deliveries in kind,

and of supplements based on an index. When the aggregate German payments reached a certain maximum amount, Germany was to be freed from further annual payments. Definite figures were carefully avoided; their fixation was to be left to a mixed commission of experts. This financial plan, born of embarrassment, was discussed briefly at a single meeting of a sub-commission. The urgent request of the Allies for figures was not complied with.

At the sudden ending of the Conference at Spa all participants must have breathed a sigh of relief. It was an instructive instance of how economic questions should *not* be handled. The bitter atmosphere on both sides should have firmly determined all participants never again to arrange a reparation conference so long as both sides were groping their way entirely in the dark. Unfortunately no such lesson was derived from the Spa Conference. On the contrary, Lloyd George, versatile and unshaken, moved and carried a proposal to reserve the further discussion of reparations to another international conference at Geneva.

Whilst no progress was made at Spa in the reparation question itself, and the outlook for an understanding, on the contrary, was rendered less hopeful, the Allies at least reached an agreement on one point—how in future to distribute among themselves the skin of the bear—the reparation payments. It was agreed that France should receive 52 per cent., England 22 per cent., Italy 10 per cent., Belgium 8 per cent. and all other participants the remaining 8 per cent. Furthermore, Belgium's right to preferential treatment in reparation—the so-called Belgian priority—granted to her in principle by the Allies at Versailles, was definitely fixed at 2 milliard gold marks.

CHAPTER VI

THE CONFERENCES AT BRUSSELS

An International Financial Conference called by the League of Nations was held in Brussels from 24th September to 8th October 1920. Its object was to study the financial world crisis and to discuss ways and means for its relief. Germany received an invitation to participate. France, however, promptly took steps to prevent any discussion of reparation. On 5th August 1920 the Council of the League of Nations had to pass a resolution that no discussion should occur at the Conference of any of the questions pending between the Allies and Germany. This rendered it impossible for the Conference to consider reparation—the most important of the world's financial problems. Outwardly the Conference was a brilliant affair, undisturbed by any embarrassing incident. There was considerable apprehension that Germany might attempt to avail herself of the opportunity to gain the support of the neutral Powers for her standpoint in the reparation question, and it was regarded as not impossible that the neutrals might manifest an inclination to join hands with Germany. Hence the formal prohibition against any reference to reparation by the members of the League of Nations. But my speech for the German delegation—which, like the speeches of other nations, had to make a statement regarding the financial condition of its country—did not justify this apprehension. It described Germany's financial condition in gloomy colours, in accordance with the true situation, but avoided all reference to the Treaty of Versailles. It hinted at the hope that, with intelligent co-operation among the nations, German conditions might improve, and held out the definite prospect of Germany's ready participation in the reconstruction of Europe. Loud applause from all sides rewarded this presentation of the case, less, perhaps, for its content than from a feeling of relief that a moment so critical for the Conference had passed without mishap. The Conference passed a series of sagacious resolutions for the re-establishment of the financial equilibrium of the world which, under the conditions prevalent, were but the expression of pious wishes.

The Brussels Conference is nevertheless of importance for

eparation in that it afforded the German participants the first pportunity to associate again on an equal footing with the repre-entatives of the Allied Powers. This is a factor which in the his-ory of reparations is not to be underestimated. At the conferences t Versailles and at Spa the German representatives were treated s accused, to be called to account and treated accordingly. This tatement is no exaggeration. It is only necessary to peruse the fficial notes that the Supreme Council of Versailles showered at he time in question in such profusion on the German Government; hey are all in the same key. Such treatment begets, even in those who come sincerely with the best intentions to meet their obligations, bitterness which is bound seriously to diminish the eagerness to erform them.

The most pressing questions in the autumn of 1920 were the ncreased deliveries of coal and the arrangement for the advances o be made on such deliveries. By straining every effort, Germany ucceeded, in the three months from August to October, in deliver-ng the quantities of coal required—about 6,000,000 tons in all. The danger of the occupation of the Ruhr was thereby temporarily verted. From November to January the monthly deliveries of ,000,000 tons could not be fully maintained. For the entire period f six months there was a deficit of more than 600,000 tons, which, owever, entailed no evil consequences.

The arrangement for the advances on coal deliveries provided or at Spa had been left in the hands of the Reparation Commission. n an agreement with the German War Burdens Commission, f 27th October 1920, the amount of the advances was settled t a uniform figure of 40 gold marks per ton of coal. On 28th December 1920 an agreement was also reached on the difficult uestion of the repayment of those advances. I had declared from he beginning that repayment *in cash* by 1st May 1921 was out of he question, and that I would rather forgo the advances entirely if uch repayment was required. It was finally agreed that the advances nade were to be set off, on 1st May 1921, against the deliveries in ind made up to that date. This was a very favourable agreement or Germany. She thus received on account of coal deliveries pay-nents aggregating over 360,000,000 gold marks. It is true that, gainst this, a corresponding amount of deliveries in kind was not

credited on reparation account. But as the deliveries had to b made in any event, and as this credit was of no particular momen as compared with the total reparation debt, which, whilst as ye undetermined, was bound to run into enormous figures, the advance of the Allies amounted in effect to cash payments for the coal, an they were made at a time when Germany was forced to import larg quantities of food and raw material and needed an unusually larg amount of foreign exchange. The amount of 40 gold marks pe ton of coal also proved to be advantageous to Germany, for, whil up to the autumn of 1920 a general scarcity of coal prevailed, gradual change took place thereafter which strongly depressed coa prices everywhere. The difference between the German interna price of coal and the price in the world market, which had exceede 40 gold marks at the time the agreement was made, soon fell fa below this figure. The offer of reparation coal at last became s plentiful that a part of the deliveries, which were intended for con sumption in the receiving countries, came on the world market Upon Germany's complaint against such abuse of deliveries in kin the Reparation Commission ruled, on 25th February 1921, that an receiving country could do with its reparation coal as it pleased Three years later, however, the Dawes experts approved the Germa standpoint.

The increased supply of coal in the world market also account for the fact that, after the termination of the Spa deliveries, th Reparation Commission, though it at first fixed the monthly deman at 2,200,000 tons, soon reduced it to 1,700,000 tons. Disturbance in Upper Silesia, which still further impaired the German supply from that quarter, were the occasion for the reduction. For politica reasons, however, the Reparation Commission did not reduce it coal programme officially, but only indirectly, by designating par thereof—viz. 1,700,000 tons—as specially urgent and by passing over in silence the non-delivery of the rest of the coal asked for German deliveries were thereafter maintained always somewha below the quantity indicated as urgent without giving rise t complaint by the Commission, except in isolated cases. And ye it was just the deficiencies in coal deliveries which later were t be advanced as justification for the occupation of the Ruhr.

The summons to the Conference at Geneva, which had been

agreed upon in Spa, was postponed again and again. Lloyd George urged it, France was evasive. In November 1920 the Supreme Council resolved first to prepare the reparation problem by a discussion between Allied and German experts, to be held in Brussels. This meant another attempt to solve the problem outside the Reparation Commission, though the interference with the rights of the Commission in this instance was mitigated by the fact that, with the exception of France, all Allied Powers sent their respective delegates in the Reparation Commission to Brussels as experts.

The official programme of the Conference was to obtain from the German Government exhaustive and authentic information regarding the financial and economic condition of the Reich, and to discuss ways and means by which the solution of the reparation problem might be advanced. The amount of the debt itself was not to be discussed, nor was any definite offer expected from Germany.

The experts met at Brussels, on 16th December, under the chairmanship of Delacroix, who had shortly before become a delegate to the Reparation Commission in succession to Thenuis, who had been nominated Belgian Minister of Finance. Germany sent as delegates, in addition to myself, the President of the Reichsbank, Havenstein, State Secretary Schroeder, representing the Ministry of Finance, and some of her most prominent experts. England was represented by Sir John (afterwards Lord) Bradbury and Lord d'Abernon, France by Seydoux and Cheysson, Italy by d'Amelio and Giannini, and Belgium by Delacroix and Lepreux. Japanese delegates also attended the Conference. The first subject to be discussed was the condition of the German budget and the foreign exchange situation. A lengthy and pessimistic speech by President Havenstein disappointed the Allies, who expected German co-operation in a positive form, and the discussion threatened to drift from the start into a blind alley. A confidential exchange of views with the other side showed the necessity of outlining at once a programme of reparation payments which German opinion held to be possible. I therefore developed, on the next day, the following ideas: Germany had a vital interest in seeing its reparation debt fixed as soon as possible and reasonably—that was to say, at an amount within Germany's capacity to pay; the moral aspect of the operation was

of the utmost importance: immeasurable damage would result if a theoretical amount were to be demanded without regard to actual possibilities, which would be bound to drive Germany into despair. The framework of the German ideas was contained in the proposals made at Spa. From the total reparation debt the German deliveries and cessions heretofore made would have to be deducted. The balance of the indebtedness would be discharged in thirty annuities as provided in the Treaty of Versailles. For the time being, Germany could make no cash payments, for reasons well known to all present, but only deliveries in kind. A particular interest attached to the delivery of material for the reconstruction of the devastated territory. The terms of the Treaty of Versailles regarding these deliveries were too complicated. Germany was ready for practical co-operation and hoped soon to reach an understanding which would enable reconstruction to proceed rapidly. A definite plan for this could not be developed at the moment, but it might be suggested that the German Government should open a large credit in marks, out of which fund payment could be made to German contractors on account of private orders executed for the damaged parties. Details had best be worked out by a special commission.

The primary condition for the possibility of cash payments was the rehabilitation of the German currency and the balancing of the German budget. Whether Germany could accomplish this by her own efforts alone was questionable. There was a possibility of a credit operation on a large scale for the stabilization of the German currency, as internal order was already re-established and willingness to work was reviving in Germany. As soon as the German budget and currency were put in order, Germany would start payments. Before this, however, it would be necessary to remove certain impediments contained in some of the provisions of the Treaty of Versailles. The cost of occupation on its present scale would probably consume everything Germany could possibly pay. This item, therefore, would have to be reduced considerably in the interest of both sides. Moreover, there was the Upper Silesian question. The loss of Upper Silesia would greatly impair Germany's capacity to pay. The release of German private property in the Allied countries was particularly urgent, since otherwise equilibrium in German trade could hardly be re-established. The clearing-office

system set up by the Treaty of Versailles for private debts led to great difficulties in practical operation. Furthermore, Germany would have to regain a position of economic equality in the world and, most important of all, be freed from the everlasting threat of economic reprisals. Finally it was necessary to leave sufficient ships for German trade. All of these questions required extensive study.

While this presentation contained nothing particularly new, it was nevertheless received with satisfaction by the other side, and considered an important forward step in the German attitude. The sentiment of the Conference remained the best imaginable up to its close. The various questions raised by me were elaborated by the German experts in the meetings of the following days. Intercourse between Allies and Germans outside the official meetings was unconstrained. All indications justified the hope that this Conference of experts, free from political pressure, would at last point out the right path.

On 22nd December 1920 the Conference adjourned until 10th January 1921, in order that the various subjects might be studied thoroughly in the meantime. For each question at issue an Allied delegate was to be in contact with a German representative. In addition to the German material already submitted extensive questionnaires had been prepared by the Allies which were to be answered in detail by the German delegation.

For the first time a meeting of Allied and German representatives which left a pleasant impression with all of the delegates and found a friendly Press everywhere had taken place.

The adjournment of the Brussels Conference was in reality due to the following circumstances.

Immediately after the opening of the Conference I was informed confidentially by the chairman that one of the British delegates was quietly planning a material extension of the scope of the Conference. He wished to establish at Brussels a firm basis for the reparation programme and to discuss definite figures for submission to the Allied Governments. The reason given to me by the aforesaid British delegate for this sudden change of programme was the desire to take advantage of the momentarily favourable political conjuncture, and the spirit governing leading French circles, to

secure an early solution of the reparation question. If Germany, basing herself on the plan of Boulogne, should make an offer of yearly deliveries in kind of about 2 milliard gold marks and a cash annuity of 1 milliard gold marks, a satisfactory basis for reparation negotiations could be found. The deliveries in kind were to be credited to Germany on the most favourable terms possible, so as to be sufficient to cover the 2 milliards provided for.

I was at first very sceptical, as my British informant—quite apart from the amount of the payments asked for—took a far too optimistic view of the possibility of an agreement, and was apparently prompted by the ambitious desire privately to rush a speedy solution of the great problem. But confirmation came to me even from French quarters that the "positive policy" had of late gained considerable ground in France. The conviction was everywhere taking shape that economic co-operation with Germany was imperative to ward off the danger of an early collapse of European civilization. It was now necessary to satisfy public opinion in France that Germany was trying honestly to do something substantial for France without delay. While cash payments were for the time impossible, Germany could pay in deliveries of materials and in labour. Whether actual German co-operation in the work of reconstruction could be developed was dependent upon unsolved political and social problems. For the present, the question at issue was a reasonable and practical solution of deliveries in kind.

My speech to the Conference, as quoted above, was based on these confidential communications.

At the same time I learned that the Reparation Commission would probably be able to fix the indemnity by 1st May 1921 at an amount considerably below previous estimates. As the claims for damages filed by the Allies reached a total of from 200 to 300 milliard gold marks, it was thought that certain doubtful provisions of the Treaty of Versailles might be interpreted in favour of Germany so as to screw the total of the damages down to about 100 milliard gold marks.

It was impossible to assume a purely receptive attitude toward all of these disclosures. I stated that the Boulogne plan, on account of its fantastic figures and the character of the guarantees demanded, was unacceptable. When it was pointed out that the

annuities of 269 milliard gold marks provided by the plan only represented a present cash value of 85 milliard gold marks I asked why, instead of adhering to such alarmingly high figures, the 85 milliards were not taken as a starting-point—not, of course, as the amount of the German debt, but only as the amount of the damage to be fixed by 1st May 1921. This remark fell on fertile soil. I then declared, without opposition from the confidential Allied representatives, that even this was an amount outside of the reach of Germany, but that in any event it offered at least some sort of a basis, and that it would then be easier to come to an understanding than if hundreds of milliards of gold marks were always staring us in the face. The exchange of views concluded with the recognition that the points discussed would require further preliminary consideration by both sides. The Conference adjourned in order to obtain the time necessary for this purpose. In the meantime, the intention was to continue the discussion in Paris within an intimate circle. The Conference at Geneva was not to assemble until things had so matured that an agreement could be submitted to the ministers of the respective countries for their signatures.

I reported to Berlin at the time: "The car has now attained a high speed, thanks to the pressure of some Allied representatives, and it cannot now be stopped without injury; it only remains to guide it cautiously on its dangerous course. I consider the progress achieved at Brussels as significant. When the Conference adjourns to-morrow until January, we can well say that in spite of all danger it has passed better than we could have dared to hope."

Immediately after Christmas the discussions were resumed in Paris. It at once became clear that the Allies were by no means agreed among themselves upon the method of procedure. I learned from an authoritative source that the French Government was no party to the scheme of preparing a reparation plan and determining the amount of the annuities in Brussels, and that the French delegates had strict orders to make only the necessary preparations for the later Conference at Geneva and for the decision of the Reparation Commission and the Allied Governments. Therefore no real purpose could be served by resuming the Conference at Brussels on 10th January.

In the beginning of January 1921 a member of the Reparation

Commission submitted to me, as his own idea, a formal plan of reparation. He started from an indemnity of 85 milliard gold marks, against which a most liberal allowance was to be made for previous German deliveries and cessions. The balance was to be liquidated as follows: Germany to pay for thirty years a fixed annuity of 3 milliard gold marks, and upon an improvement of German economic conditions to make corresponding additional payments, in accordance with an economic index. Deliveries in kind were to play an important part in the discharge of the annuities. Furthermore, some of the conditions made by Germany at the Brussels Conference were to be met. It was calculated, in particular, that the German property sequestrated by the Allies would be returned, or credited on account of the German debt in so far as it had already been liquidated. This plan was rejected, not only by myself but by England and France as well—by England mainly on account of the provision for the release of German property, which England wished to retain in all contingencies.

Thereupon came a French counter-proposal by Seydoux: "*Germany is to pay for five years an annuity of 3 billion gold marks. During this period the total of the reparation debt is to be fixed as soon as possible.*"

With this proposal in my possession I left for Berlin, on 7th January 1921, to report to the German Government.

In the meantime the resumption of the Brussels Conference was postponed.

CHAPTER VII

THE SEYDOUX PLAN AND THE PARIS RESOLUTIONS OF 29TH JANUARY 1921

As a result of the discussions at and after the Brussels Conference events had been precipitated. While heretofore no one had ventured to come forward with a reparation plan, a concrete proposal for the complete solution of the problem—even though it was rejected—had now been discussed between the parties interested. Now Seydoux suggested, in the name of the Allies, an interim solution for five years. This was a new departure. The question first to be decided within the councils of the German Government was whether to abandon the policy hitherto followed of a speedy determination of the total reparation debt and agree to a provisional solution.

There was much to be said for and against either course. Experience had shown that, with the ultimate amount of reparation undetermined, the credit of the German Government at home and abroad had practically disappeared, and that for the same reason the distrust of the paper currency, especially in Germany, was becoming more and more pronounced. The mark had in the spring of 1920 sharply recovered after a fall which had been continuous since the Treaty, but it had again dropped materially upon the failure of the Spa Conference. For the sake of a thorough economic improvement, therefore, the logical course was to attack the evil at the root and to strive for a prompt and complete adjustment of reparation. As against this it was already realized that it would be impossible for many a day for the Allies and Germany to agree upon any definite amount of reparation. In discriminating circles on both sides the opinion was openly expressed that to follow this direction was to open an unbridgeable gulf between Germany and France. In France great apprehension prevailed lest a determination of the debt within bearable limits should free Germany too cheaply from the Treaty of Versailles and enable her, within ten or twenty years, once more to become a formidable economic and political foe to a weakened France. There was a disinclination, moreover, to base the German debt on her capacity to pay at a time

when her economic power was impaired and when there was danger of underestimating the possibility of future development. The editorial writer of *Le Temps* wrote on 18th January 1921 as follows: "Germany's public finances are in a frightful condition, but German industry and German commerce already show a signal recovery. It would, therefore, be unreasonable to impose on Germany at this time payments which would force her into bankruptcy. But it would be even more unsupportable to forgo the sum which Germany will be able to pay in the future in proportion to her growing economic capacity."

This sounds very plausible, but upon closer examination it is the short-sighted attitude of the *rentier* whose sole preoccupation is not to yield one penny of his claim, and who fails to consider that by his obstinacy he renders it difficult, or even impossible, for the debtor to be set upon his feet again and to pay anything whatever.

But, perverse though it was, the French conception had to be taken into account. With France—the foremost military Power of Europe, and Germany's principal creditor—opposing any agreement regarding the amount of the debt it would be inadvisable for Germany to decline in principle the offer of an interim solution. For an agreement for five years removed, at least for an appreciable period, the unbearable pressure which the chronic reparation crisis exercised on Germany and the whole world. It was legitimate to hope that within five years the after-pains, psychological and sentimental in nature, which had succeeded the travail of the war would tend to die down and yield to reasonable economic considerations. During this period of rest, experience would be gathered which would show whether it was at all possible for Germany to make such enormous payments abroad without receiving anything in exchange, and, what was no less important, whether such payments would really bring the receiving countries the advantages for which they hoped. Even Pizarro's famous galleons, with their freights of gold, did not enhance the wealth of Spain, and the collection of 5 milliard francs indemnity after the Franco-German War was followed in 1873 by an economic depression throughout Germany the consequences of which were felt for many years. It is not out of the way to suppose that reparation payments may

be maturing similar results, and may in the course of time prove embarrassing to the receivers themselves.

Against a provisional solution, however, there were other weighty arguments. The Anglo-Saxon world, and especially America, refused on principle to do anything towards re-establishing European credit until after a final settlement of reparation. In Germany, on the other hand, the payment of annuities for the next few years on the large scale proposed, without determining the total debt, was rejected on the ground that such a tremendous effort would be of no avail, but only result in even worse pressure by the Allies in subsequent years. This argument was particularly plausible to German ears.

At the Berlin Conference in January 1921 all these trains of thought were discussed at length. The industrials, under the leadership of Stinnes, were unanimous that Germany must hold out for a definite and not a temporary solution. I therefore returned to Paris with instructions from the Government to oppose the provisional adjustment suggested by Seydoux.

Subsequently, however, Dr Simons had a call from the French ambassador and from the British chargé d'affaires in Berlin, who both urged on behalf of their Governments the acceptance of the provisional plan for five years. As a result, I had to enter into renewed discussions with Seydoux and Lord d'Abernon. I pointed out that the annuity of 3 milliard gold marks was far too high, and would have to be reduced materially if an agreement was to be reached. This led to the counter-proposal that we might start with 2 milliards, gradually raising the payments in accordance with a prosperity index. I could not accept this proposal, but stated that it might form the basis of negotiations if it were recommended by the Allied experts to their Governments. As heretofore, however, any understanding was contingent on Upper Silesia remaining with Germany, and upon assent to the further German conditions set forth at Brussels, particularly the reduction of the cost of occupation and the release of German property.

Our discussions had progressed thus far when the Supreme Council met unexpectedly for a conference at Paris, on 24th January 1921, at which, *inter alia*, German disarmament and reparation were again subjects for discussion. The Allied experts for the

Brussels Conference presented to the Supreme Council a memorandum in which the material gathered at Brussels was carefully and intelligently digested. The experts adapted the Seydoux plan for a provisional arrangement for 1921-1926 so that the annuity should reach an average of 3 milliard gold marks within five years, and that a considerable part of the annual payments should be discharged by deliveries in kind. They further recommended the reduction of the cost of occupation to 240,000,000 gold marks per annum, and the waiving of further deliveries of German ships. Germany was to put her finances in order and to pledge her customs receipts as security for the above payments. The Allied experts thus brought before the Paris Conference a well-defined programme in the defence of which the French Government was particularly enlisted. After the fall of the Leygues Cabinet the new Prime Minister, M. Briand, obtained authority from the Chamber of Deputies to plead in the Supreme Council for provisional settlement for only five or, if possible, even for three years. The fixing of a lump sum for reparation (*forfait*) was thereby expressly rejected as not being in the interest of France.

The Conference, however, took an entirely different course. The French Finance Minister, Doumer, delivered a remarkable speech, in which he started from a German debt of 212 milliard gold marks and demanded annuities of 12 milliard gold marks. This created general bewilderment in the minds of the delegates, and heated arguments ensued between the British and French. It appears that Lloyd George suddenly discarded the generally accepted idea of a provisional settlement, and that in this he was supported by Loucheur, who had lately re-entered the French Cabinet. The Belgian delegates, Theunis and Jasper, at last brought about an agreement between the contending Allies. But even their attitude was not objective, for they came to the Conference smarting at the failure of their negotiations with Germany regarding the repurchase of German currency introduced into Belgium by the Germans during the war.

The outcome of this extraordinary Conference was the so-called Paris Resolutions of 29th January 1921. In this instance, too, the demands for reparation were embroidered by the usual political threats for non-observance of the military terms of the Treaty.

The Paris Resolutions demanded of Germany, commencing 1st May 1921, the following annual payments:

2 milliard gold marks for the first 2 years
3 milliard gold marks for the next 3 years
4 milliard gold marks for the next 3 years
5 milliard gold marks for the next 3 years
6 milliard gold marks for the next 31 years

and further, for the entire forty-two years an annual payment equal to 12 per cent. of the value of German exports. For anticipated payments a discount was allowed at the rate of 8 per cent. to 1st May 1923, then 6 per cent. to 1st May 1925, and 5 per cent. thereafter. Any foreign credit transactions of the Reich, the individual states, provinces or communities, were to be dependent upon the approval of the Reparation Commission. The German land and maritime customs, as well as all taxes imposed on imports and exports, were demanded as security. The German Government was to appoint a "General Receiver of Customs," approved by the Reparation Commission.

This plan created general sensation. The Allied experts themselves were nonplussed. All their labours had been in vain. Their proposals were simply ignored by the Conference; but the most singular feature of the plan was that the British and French Governments, which hitherto had been unable emphatically enough to reject the fixing of a lump sum (*forfait*), and had just sent their diplomatic representatives to the German Minister of Foreign Affairs to urge acceptance of the provisional settlement, now, within a few hours, decided upon a complete and definite reparation plan without one word of explanation for this reversal of their position. In the circumstances it has frequently been asserted that the Allies were not really in earnest with the Paris Resolutions, and that only the German Government was so foolish as to take them seriously.

The real reasons for the sudden change of political front by the Supreme Council have never to this day been fully cleared up. Probably, at bottom, they are to be found in purely human factors, as is often the case with great political decisions. It would seem that at the moment the pending differences between France and

England could be adjusted only on the back of Germany, by imposing on the vanquished a burden which did not look too oppressive at the start, but which, in later years, assumed proportions that would satisfy even the most exacting claims of France. Lloyd George may have reasoned, as he had often done, that tactically it was advisable first to put through such a plan and then trust to time to bring counsel.

It is amusing to reread and compare the editorials published by *Le Temps*, the mouthpiece of the French Government, during the days *before* and *after* the Conference. It will be seen what skilful dealing was required to explain to the reader why *before* the Conference France could support only a provisional settlement and *after* the Conference had to insist on a complete settlement. It is also significant that immediately after the Conference *Le Temps*, hitherto so mild and dovelike, now, together with the larger part of the French Press, demanded the immediate application of coercive measures against Germany, and especially a customs barrier between the occupied and unoccupied territories.

On 29th January the Supreme Council communicated its decision to the German Government, and proposed that German representatives should meet the Allied delegates in London at the end of February. The German ambassador in Paris and the writer both recommended the German Government to decline to enter into any negotiations regarding the Paris Resolutions. The arbitrary determination of the German indebtedness by the Supreme Council was a breach of the promise made at Spa that reparation would be discussed with Germany at a conference at Geneva. The Paris Resolutions, moreover, were contrary to the terms of the Treaty of Versailles, which required the Reparation Commission to fix the German debt by 1st May 1921. Germany, therefore, could quietly stand on the terms of the Treaty of Versailles and decline any discussion of the Paris Resolutions. From the best French quarters I learned later that there was a general shaking of heads over the failure of Germany to assume this simple and clear attitude, and over its decision to go to London, well knowing what was awaiting her there. However that may be, Germany promptly accepted the official invitation to the London Conference, addressed to her from England on 8th February 1921. Here it was again evident that

every Berlin Government believed that more could be gained by a discussion with the heads of the Allied Governments than by proceeding through the Reparation Commission. This attitude was doubtless influenced by the thought that such important negotiations should not be left to the permanent German representatives in Paris, but should be handled by the Berlin Cabinet itself. Finally the faulty composition of the Reparation Commission, and past experience with it, offered no guarantee that it would bring the necessary understanding of German conditions to its task.

Simultaneously with the acceptance of the invitation for London a storm of indignation broke out in the German Press over the enormity of the Paris Resolutions. The German Government took no steps to counteract this. On the contrary, the German Foreign Minister, on a trip through Southern Germany in the middle of February 1921, delivered speeches in Stuttgart and Karlsruhe in which he not only flatly repudiated the Paris Resolutions, but also reopened the question of the war guilt. This was not, of course, a diplomatic way of preparing for an oral discussion with the opposing party.

The rôle of the Brussels experts had been played. A British representative suggested at the time that it might be useful to meet in Brussels once more, since among the experts ideas for the London Conference would easily suggest themselves. I declined on the ground that Germany would define her attitude toward the Paris Resolutions only in London, and that until then neither could the Allies discuss eventual modifications of the Paris Resolutions nor could the German delegates enter into practical deliberations. The convocation of a conference at Geneva had also become purposeless.

In the meantime preparations for the London Conference were proceeding in Berlin with feverish zeal. A large number of prominent German experts drew up a report on the economic consequences of the Paris Resolutions. The report analysed concisely the problem of payment from one country to another, enumerated the various methods for making such payments, and concluded that the German exports would have to reach the impossible total of 40 milliard gold marks per annum in order to satisfy the normal requirements of the Paris Resolutions. The report is a very valuable contribution to the reparation question, and repays reading even

to-day, especially in relation to the Dawes Plan and its transfer provisions. A further memorandum served as reply to the criticisms of the Brussels experts on the German budget and German taxes. The German Government was not, however, purely negative, but was anxious to offer constructive proposals. These counter-proposals were the subject of deliberation in Berlin throughout the month of February.

I advocated at that time in Berlin the following attitude. The Paris proposals were unacceptable. An agreement on a reasonable total reparation amount could not be reached at the present time. There was no point in trying to cut down the figures put forward on the other side. The German proposal, therefore, if any were to be made at all, must rest on an entirely different basis. It must be of such a nature that the other side could not reject it out-of-hand. Germany must therefore resolutely take her stand on the recommendations of the Brussels experts, according to which Germany was to pay 3 milliard gold marks per annum for five years. The financing of these 15 milliards should be so arranged that 1 milliard in each of the five years should be covered by deliveries in kind. This would leave 2 milliards for each of the five years, which should be raised through loans. These 10 milliard gold marks of annuities, rediscounted at 8 per cent., represented a present worth of 8 milliards, the financing of which must be attempted on the international markets. About 1 to 2 milliards could probably be placed in Germany. The interest need not exceed 5 per cent. if the loan could be made tax-free in all countries where it was to be offered. The German customs receipts and certain export taxes could be pledged as security. The proposal was based upon the presumption that Germany retained Upper Silesia as the result of the impending elections, and that the other German wishes emphasized at Brussels with reference to the cost of occupation, private property, etc., received consideration.

I had no success with my proposal. The objections against a provisional settlement were too great in Berlin. It was thought possible that a comprehensive German plan could at least create a basis for negotiations. A French calculation was adopted, according to which the present cash value of the 226 milliard gold marks in annuities of the Paris Resolutions, discounted at 8 per

cent., corresponded to a present cash value of only about 53 milliard gold marks, and in conformity with this calculation an amount of 50 milliard gold marks was taken as a starting-point for the German offer. From this a deduction of about 20 milliard gold marks was made in respect of all German deliveries and cessions made to date. Thus an amount of 30 milliard gold marks was reached, which was to be liquidated by international loans. I opposed this idea as far-fetched, since 30 milliard gold marks of German loans could not be floated, even over a series of years. But what appeared to me especially dangerous was to mention 30 milliard gold marks in London as the total debt. This was bound to have a fatal effect in view of the sentiment prevailing in the Allied camp. At the same time, it might be useful to start from the present cash value of the annuities as fixed in Paris, in order to get away from the confusing array of milliards to more debatable figures. Finally the following plan was pieced together in Berlin.

The figure of the Allies—viz. 53 milliard gold marks—was accepted as a basis. From this, however, should be deducted all German cessions and deliveries under the Treaty of Versailles in so far as they were to be credited to reparation account. The value of these cessions and deliveries was to be fixed at the earliest possible date, and at a reasonably high figure. The 12 per cent. levy on German exports was rejected. In lieu thereof a "Besserungsschein" was introduced—that is to say, an obligation on the part of Germany to pay the Allies as reparation a proper proportion of any later increase in national revenue. To this end a suitable index was to be prepared within the next two years.

The fixed indemnity of 53 minus x milliards—x being the still undetermined value of past cessions and deliveries—was to carry interest at the rate of 5 per cent. from 1st May 1921, and to be financed by international loans. But as it was impossible to float such enormous loans on the world markets within a reasonable period, an instalment should first be financed—say, within five years—of 8 to 10 milliards through loans, and 5 milliards through deliveries in kind. In addition to the customs receipts, certain internal revenues—such as taxes on the consumption of sugar, alcohol and tobacco—were contemplated as security. As long as Germany regularly paid the amounts required for the service of

the loans she should be free from foreign interference in the administration of the revenues pledged as security.

Prior to the London Conference I discussed the draft of this proposal confidentially in Reparation Commission circles. It was pronounced not at all bad, but it was pointed out that the credit for the previous cessions and deliveries would be fraught with difficulties, and that the German ideas as to their value were fantastic. Berlin, however, insisted on framing the offer in such a way as not to exceed a total indebtedness of 30 milliard gold marks. The statement was therefore inserted in the offer that the German Government estimated the previous cessions and deliveries at 20 milliards, but would leave the determination of the true value thereof to the decision of experts. As a starting-point for the total indebtedness not 53 but a round 50 milliard gold marks was finally put in the draft. In all other respects the proposal taken to London by the German delegation under the leadership of the Foreign Minister, Dr Simons, was identical with the draft I had previously confidentially communicated to the Reparation Commission without hearing any serious objections raised against it. The important point was that the proposal made express provision for a " Besserungsschein." In this form the German offer, in the opinion of several members of the Commission, could be submitted in London without apprehension, although it was not to be expected that the Allies would at once approve it.

But events again took a different turn. Upon his arrival in London Dr Simons learned from German quarters that his proposal involved a great tactical mistake : it was offering the Allies *too much from the start.* This was reported to be the opinion of those who stood very close to Lloyd George. It would be advisable, therefore, not to present the entire German proposal at once, but to have something in reserve, should the other side want more than Germany offered. Despite urgent warnings from within the delegation, Dr Simons, anxious to adapt himself to Lloyd George's intentions, took this hint. In the night preceding the Conference the passage covering the " Besserungsschein " was temporarily eliminated from the proposal.

CHAPTER VIII

THE LONDON CONFERENCE—1ST TO 7TH MARCH 1921

The meeting with the Allies in London took place on 1st March 1921. The heads of the British, French, Italian and Belgian Governments were present, with the other ministers concerned, and a great number of experts, and also representatives of Japan. Dr Simons was invited to speak. Instead of presenting the written German offer, he entered into a conscientious presentation of the difficulties under which the German proposal had originated. He proceeded to make a searching examination of the Paris Resolutions, which he declared from the economic standpoint to be impossible of execution. It was, properly speaking, impossible for the German Government, given the existing internal conditions, to make a firm proposal, but nevertheless it had decided to do so, in order to arrive at a solution of the reparation problem at the earliest possible moment. He did not consider it proper to fix annuities over a long period of years, but wished to start from a definite present value—namely, 50 milliard gold marks, this being the present worth of the total annual payments under the Paris Resolutions discounted at 8 per cent. Against this would have to be credited Germany's previous services and deliveries, which he estimated at over 20 milliard gold marks. This left a balance of about 30 milliard gold marks, which would have to be verified in detail. Dr Simons, in his subsequent remarks, spoke the whole time about these 30 milliards. He stated that 8 milliards thereof were to be financed for the present by an international loan, and explained to the assembly, which was growing more and more impatient, his ideas as to how the remaining 22 milliards were to be financed. This method of presentation, by which the tabooed 30 milliards were persistently hammered into the minds of the audience, while the debt seemed to shrink more and more, created an unfavourable impression, which was further intensified by the difficulties of translating the complicated German address. Dr Simons therefore felt obliged to break it off short in order to proceed to the reading of his formal proposal, but this Lloyd George, as chairman, very abruptly declared to be unnecessary, and the

meeting thus ended with the simple transmission of the German counter-proposal.

The excitement of the Allies was intense; the entire Allied Press, and particularly the British newspapers of all parties, condemned the attitude of the German delegation root and branch. In all seriousness people spoke of a German challenge, and the whole world at once clamoured for sanctions. There is a touch of tragi-comedy in ascribing to the German delegation, which had been working incessantly for weeks, under the painstakingly conscientious, careful and dignified leadership of Dr Simons, in its efforts to prepare and present proposals acceptable to the Allies, the intention to issue a deliberate challenge. Here was particularly glaring evidence of the fact that, on the one hand, the German does not know how to adjust himself to other peoples' ways of thinking, and that, on the other hand, the world does not appreciate the peculiar thoroughness and application of the German. What had really occurred was a tactical mishap of the German Minister, which could surely have been avoided in a quiet and matter-of-fact discussion within a small circle. Instead, Dr Simons was compelled to justify himself before a large and solemn assembly, and his embarrassment was immediately branded as a crime.

Until 3rd March the German delegation remained without contact with the Allies and was then summoned to a second meeting. Lloyd George delivered a thundering arraignment of Germany. He characterized the German proposal as a patent mockery of the Treaty of Versailles. The spirit of the German delegation was the result of the speeches which Dr Simons had delivered in Germany against the Paris Resolutions.

The Karlsruhe address, in which he had repudiated Germany's responsibility for the war, was specially serious. That was the true face of Germany, and her present proposals were the logical conclusion. Germany had as yet failed to understand that she had to make reparation. The German claim that the Allied demands constituted an intolerable oppression and enslaved the German people was false. The Allies only desired to have part of their damage repaired. It was a waste of time to examine the German proposals. All the Allies had to say was that, in view of the numerous infractions of the Treaty of Versailles by the German Government as regards

convictions of war criminals, disarmament, the payment of 20 milliard gold marks for reparation, etc., the time had now arrived to impose penalties. Unless Germany proclaimed by 7th March her readiness to accept the Paris Resolutions, or made other satisfactory proposals, the Allies would resort to the following sanctions :

They would (1) occupy the towns of Duisberg, Ruhrort and Düsseldorf; (2) retain in Allied countries part of the purchase price of German imports; (2) seize the German customs receipts in occupied territory and establish a customs line between the occupied and unoccupied regions.

To what extent honest indignation was mixed in this reprimand with political histrionics is difficult to judge. It is scarcely possible for anyone of ordinary human intelligence to conceive that the Allied leaders could really have imagined that the German delegation would, under the stress of the threatened sanctions, be prepared either to accept the Paris proposals or to produce better counter-proposals from their pockets. If it was really the intention to follow the famous precedents of Versailles and Spa, and to obtain German concessions under heavy pressure, the Allies in London absolutely misjudged the situation. It was simply impossible for the German delegation to meet the demands of the Allies. There was nothing left for them to do but to await the sanctions.

In this desperate situation, which had only originated in a series of mistakes to which an exaggerated importance was attached, an attempt was made to get into personal touch with the other side. I called on Philip Kerr, at that time private secretary to Lloyd George, and explained to him *tête-à-tête* that the German attitude had been entirely misunderstood by the Allies. Kerr understood at once, and suggested a conference between Lloyd George and Dr Simons To avoid arousing French suspicion, Briand was likewise notified. A meeting was arranged in the strict privacy of of Lord Curzon's home, on the morning of 5th March, at which there were present Lloyd George and Lord d'Abernon, Briand and Loucheur, Dr Simons and myself. The Allied representatives listened at first with cold reserve to the explanations of Dr Simons. Their attitude gradually thawed, however, especially when I pointed out that, with the present divergence of views as to Germany's

capacity to pay, it was impossible to reach a definite settlement now, and that it would be necessary to revert to the provisional adjustment of the Brussels experts. Lloyd George gladly took up the idea and promptly arranged for a conference between Allied and German experts. But Loucheur, who presided at this conference, declared that a provisional adjustment was now impossible because public opinion in the Allied countries demanded a definite settlement. An arrangement for five years was of no value now, as no one could foretell what would happen after five years. It would be necessary to have annuities for thirty years, of at least 3 milliard gold marks per annum. As the German representatives declared themselves unable to consent to such an arrangement the meeting came to an end. Notwithstanding, the German delegation drew up a proposal for a provisional settlement for five years, which was carefully considered over Sunday by the Allies at the country seat of Chequers. On the night of this Sunday (6th March) Lord d'Abernon and Loucheur called on the German delegation. They stated that the provisional settlement had been rejected and presented two alternative proposals: either annual payments of 3 milliard gold marks for thirty years, and a 25 per cent. tax on the value of German exports; or, otherwise, a tax of 40 per cent. on the value of German exports for thirty years, but at least 3 milliard gold marks per annum. Neither proposal could be accepted on Germany's behalf.

Fate ran its course. On the following morning the decisive meeting took place. Dr Simons reverted once more to the proposal for a provisional arrangement, and pointed out that only a few weeks earlier the Allied experts, as well as the Allied Governments themselves, had insisted on a provisional arrangement and declined a permanent settlement. He declared his willingness to accept the fixed annuities as provided by the Paris Resolutions for five years, and to offer in addition a full equivalent for the 12 per cent. tax on German exports. If no agreement was reached within five years regarding the total debt, the terms of the Treaty of Versailles should be adhered to. Dr Simons adroitly emphasized the fact that it was unjust to accuse Germany on account of this attitude of an obstinate and deliberate refusal for which she deserved punishment. He found telling words in which to express the necessity of German

co-operation in the reconstruction of Belgium and France, and proved by the terms of the Treaty of Versailles the illegality of the threatened sanctions. He concluded with the statement that any measure of coercion, if it failed to attain its purpose, provoked further measures of coercion, and thus led away from peace to a new state of force. It was imperative that all concerned should emerge from the unhealthy atmosphere of force into the wholesome atmosphere of voluntary co-operation. However the question of war guilt might be decided, they were concerned with a common distress which could be removed only by a common effort. Germany was ready to exert herself more than the others.

This excellent speech created an evident impression, but it was too late: the Allies had gone too far to be able to turn back. Force had been openly threatened to such an extent that it now had to be applied. When Lloyd George declared that the sanctions would have to be put into operation it was plain to see and hear how little his heart was in what he said. He knew as well as the other members of the Conference that reason and right were being sacrificed in London to find an escape acceptable to the masses from an impasse that the Allied Governments had themselves unnecessarily created by their policy of force directed against Germany.

The provisional settlement offered by Dr Simons has been severely criticized in Germany as well as by the Allies. Briand stated before the French Chamber and to the Press that Dr Simons had raised his offer within three days to three times the amount originally mentioned and had thereby proved Germany's want of good will. This statement is entirely false. Under the original German offer made in London annuities of 15 milliard gold marks in all were to be paid within the first five years, by deliveries in kind and loans. The last German proposal made in London adopted the Paris figures for five years—*i.e.* fixed annuities of a total of 13 milliards plus 12 per cent. of the value of exports, approximately 3·5 milliards, or a total of 16·5 milliard gold marks. The difference in the amount offered, therefore, is not of any great importance.

Once more high politics had absolutely failed in the solution of the reparation problem. The sanctions became operative at once. Marshal Foch moved his troops as early as the morning of 8th March 1921. Düsseldorf, Duisberg and Ruhrort were occupied, a customs

line between the occupied and unoccupied regions was established, and the German customs receipts on the western frontier were sequestrated. England proceeded to enact the German Reparation Recovery Act, by which up to 50 per cent. (the rate was later reduced to 26 per cent.) of the value of the German imports to England were to be retained for reparation. Other Allied states enacted similar laws—which for the time being, however, were not put into force.

That the Allied Governments could not derive from the Treaty of Versailles the right to apply the London sanctions has been demonstrated so convincingly by various authorities that we need not enter into a further examination of this question. But it may here be pointed that the London sanctions paved the way for the later occupation of the Ruhr District.

CHAPTER IX

ESTABLISHMENT OF THE REPARATION DEBT AND THE LONDON SCHEDULE OF PAYMENTS OF 5TH MAY 1921

After the London Conference chaos reigned in reparation questions. It is difficult to make one's way through the maze of subsequent events.

The Reparation Commission was much concerned over the occurrences in London. Any reasonable discussion was almost impossible under the fresh impression of the sanctions. Nevertheless some discerning members of the Commission soon lent me their aid in an effort to reach an understanding outside of the turmoil of politics. An opportunity presented itself in the work of fixing the German reparation indebtedness in accordance with the Treaty of Versailles. Close discussions on this matter between the Reparation Commission and a German delegation under Dr Ruppel began in Paris in February 1921. I need not enter into the details of these discussions, but it is worth mentioning that, despite the conflicting interests involved therein, the collaboration between the two commissions was successfully established, and very beneficial. It was suggested to me at that time from Allied quarters that Germany should apply to the Reparation Commission with a proposal that the two commissions should not only discuss the amount of the damages but also the method by which Germany could meet her obligations. The possibility would thus arise naturally of preparing a plan of payment in conference with Germany, without requiring Germany to present a definite proposal beforehand. I strongly pressed this suggestion upon the German Government, but without success. In view of the general political excitement it may have been too late for such a step, especially as after the Conference of London the Reparation Commission, acting under superior orders, officially insisted on the letter of the Treaty of Versailles, and presented a series of demands which were all impossible of fulfilment. The Commission thought that it had thus to satisfy public opinion that it was conscientiously discharging the duties imposed upon it by the Treaty.

The first case concerned was the payment of the 20 milliard

gold marks which Germany had to pay by 1st May 1921. As already mentioned, a German statement of payments, deliveries and cessions, which was intended to show that Germany had already paid more than 20 milliard gold marks, had been presented at Spa. To a further communication of the German Government, dated 20th January 1921, which came to much the same result, the Reparation Commission replied on 26th February 1921 that it was not as yet in a position definitely to determine what proportion of German cessions and deliveries made in the past were to be credited on account of the 20 milliards, but could already state that the amount to be credited therefor would not exceed 8 milliard gold marks at the utmost. There remained, therefore, 12 milliards to be paid prior to 1st May 1921. Germany should indicate the manner in which she would settle this amount. When the German Government insisted that more than 20 milliards had already been paid, the Reparation Commission, on 15th March, made a peremptory demand for the payment of 12 milliard gold marks. In the first place, an instalment of 1 milliard gold marks, in French, English or American money, was to be paid by 23rd March—that is, within eight days. By 1st April proposals were to be presented for the discharge of the remaining 11 milliards, for which purpose payment by deliveries in kind and securities, as well as by the issue of a loan, would be considered. The correspondence regarding this stupendous demand assumed such a character that the Reparation Commission again threatened the enforcement of the paragraphs of the Treaty relating to sanctions. When even this did not have any effect, the Commission demanded the transfer of all gold and silver held by the Reichsbank to its branches in Cologne and Coblenz. If the Government resisted this demand, then the delivery of the gold and silver to the Reparation Commission would be demanded. All of these demands were presented in the form of an ultimatum, a reply to which was to be given within a few days. The German Government declined the transfer of the specie holdings of the Reichsbank as impossible, the bank being a private institution independent of the Government of the Reich. It further explained that the removal of the Reichsbank gold from Berlin would destroy what remained of German credit and thereby render any reparation impossible. The Reparation Commission then

demanded delivery of 1 milliard marks in gold by 30th April. On 29th April the German Government informed the Reparation Commission that it had transmitted to the Government of the United States proposals for the solution of the reparation problem under which it was proposed to pay forthwith to the Reparation Commission the 1 milliard gold marks in the following manner: 150,000,000 in gold, silver and foreign bills of exchange, and 850,000,000 in ninety-day bills in foreign currency.

The Reparation Commission responded only by a formal notification to the Allied Powers that Germany had not complied with her obligation to pay 20 milliards and was in default to the extent of at least 12 milliards.

In the meantime the German Government, in its distress, had resorted to the most extraordinary expedients to extricate itself from a desperate situation. It applied to the Holy See, and of course without success. It was ready to accept the proposal of a neutral intermediary having for its object the offer of 50 milliard gold marks direct to the French Government. Finally it took the dangerous step of appealing to the President of the United States as an arbitrator. President Harding declined, but declared his willingness to examine any new German proposals, and to pass them on to the Allies if they seemed suitable. Thereupon the German Government, on 24th April 1921, addressed the offer mentioned above to the United States. Germany agreed therein to acknowledge a reparation debt of a present value of 50 milliard gold marks, and to pay this sum, if desired, in annuities up to a total of 200 milliard gold marks. Interest on the 50 milliards was to start at the rate of 4 per cent., and to be raised thereafter in accordance with Germany's capacity to pay. As large an amount as possible was to be made available at once through an international loan. Moreover, the Allied Powers were to receive the right to share in any future improvement in German economic and financial conditions. Germany renewed her offer to participate to the utmost of her power in the reconstruction of the devastated areas with labour, material and other means, and to make deliveries in kind to the Allies even beyond these requirements. One milliard gold marks was to be paid at once to the Reparation Commission in the manner above indicated. Should the United States and the Allies so desire, Germany would be

willing to assume, to the extent of her capacity, debts of the Allies to the United States. In addition Germany declared her readiness to furnish any guarantees desired.

On 3rd May 1921 the United States notified Germany that the Allied Governments had rejected the offer.

It is hard to understand to-day how the German Government of those days could summon the courage to make such a far-reaching offer, which in the opinion of all informed persons far exceeded Germany's means of payment. If the Allies had taken up the offer, and started negotiations on that basis, Germany would have been committed at once to a promise to pay which would have rendered the preparation of any further reparation plans unnecessary. Even under the Dawes Plan the Allies will certainly never receive as much as Germany herself offered at that time. Perhaps it was because they were already engaged at that time in the preparation of their own plan of payments that the Allies did not consider the offer as deserving serious consideration.

The Reparation Commission concluded its work of fixing the German reparation indebtedness on 27th April 1921. It reached a total of 132 milliard gold marks, from which were to be deducted:

(*a*) the amount already paid on account of reparation;

(*b*) the amounts which might be credited from time to time on reparation account in respect of the value of State property in ceded territory;

(*c*) any sums which might yet be received from Germany's former Allies and credited on reparation account.

On the other hand, the Belgian war debt to the Allies, which Germany was obliged to assume in accordance with the Treaty of Versailles, was to be added to the 132 milliards.

Of all payments made by Germany up to 1st May 1921 nothing was available for reparation proper. The Reparation Committee officially established that it had actually received by 1st May 1921 about 2·6 milliard gold marks as the equivalent of all payments, deliveries and cessions made by Germany. Against this amount the expenses of the armies of occupation were to be a first charge. These reached, on 1st May 1921, a total of 2·1 milliard gold marks for the French, Belgian and British armies, and for the small

American army of occupation alone more than 1 milliard gold marks. As the advances of 360,000,000 gold marks made on coal deliveries under the Spa agreement, as well as the cost of the Allied Control Commissions, had also to be charged against the credit of 2·6 milliards, the receipts on reparation account were barely sufficient to pay the expenses of occupation of the French, Belgian and British armies. The cost of the American occupation remains unpaid to this day! Under the terms of the Interallied Financial Conference of Paris of 14th January 1925 this expense is to be paid gradually out of the German annuities under the Dawes Plan.

This statement of accounts is symbolic of the senseless economic destruction and waste resulting from the execution of the Treaty of Versailles. Be it noted and pondered: the cession of almost the entire German merchant marine, consisting of 2,187,000 gross tons —according to the figures of the Reparation Commission—the delivery of 24,000,000 tons of coal and 15,000,000 kilos of dye-stuffs, great quantities of animals (including 135,000 cattle and 50,000 horses), and immense amounts of material (more than 5000 locomotives, 1200 passenger and baggage cars, 135,000 freight cars, 130,000 agricultural machines), which had been surrendered under the terms of the Armistice, in addition to all further deliveries, were swallowed by the costs of occupation. The sacrifices and privations which Germany was compelled to impose upon herself, and which would have been of practical value only if they really benefited the economic life of the damaged countries, were squandered absolutely to no purpose in military expenses. They brought no alleviation to Germany of her reparation debt. No wonder that, with such a system, by which all German payments disappeared into the pitchers of the Danaids, it was a task of extraordinary difficulty to convince the German people that they should strain every nerve to discharge the reparation debt. All this has to be taken into account if one is to form a just opinion of the German attitude toward reparation.

The 2·6 milliard gold marks appearing on the books of the Reparation Commission as actual German payments to 1st May 1921 are supplemented by further credits under the Peace Treaty to the amount of something over 2·5 milliards, including principally

the Saar coal mines ceded to France, valued at 400,000,000, and the State properties in German territories ceded to the Allies. These amounts were adjusted on capital account between the Allies direct, and no payment for the same has been received by the Reparation Commission. In the aggregate, therefore, an amount slightly exceeding 5·1 milliard gold marks was credited to Germany as reparation for all deliveries and cessions up to 1st May 1921. According to German opinion this sum is far too small.

In a memorandum prepared in September 1922 Dr Schroeder, formerly Under Secretary of State in the Finance Ministry and now President of the Prussian State Bank, calculated the value of German payments and services up to 1st May 1921 at more than 37 milliard gold marks. Included in this sum are certain items, however, for which credit has not as yet been allowed by the Reparation Commission—such as the value of German property liquidated in enemy countries, the cession of Germany's claims against her former Allies, and material abandoned by the German armies in the regions occupied by them.

The dispute about the value to be placed on German cessions and deliveries up to 1st May 1921 has produced a voluminous amount of literature. For the purpose of this book it is not possible to enter into any details. In the ultimate settlement of the reparation debt a decision as to the real value of these payments and services will probably have to be reached by way of arbitration.

The Supreme Council of the Allies reassembled in London at the end of April, and itself drew up a schedule for the payment of the reparation debt, after which it summoned the Reparation Commission from Paris to London so that it might adopt the ready-made schedule and communicate it to Germany as its own work. This was done, and thus originated the London Schedule of Payments of 5th May 1921. It was accompanied by an ultimatum of the Allies to Germany: unless the German Government unconditionally accepted the entire plan within six days the Allies threatened, in addition to other military measures by land and by sea, to occupy the Ruhr District. Germany's alleged military defaults as regards disarmament and the prosecution of the war criminals were again mixed up with reparation matters.

THE LONDON SCHEDULE OF PAYMENTS

The London Schedule of Payments may be summarized as follows:

(1) Germany shall deliver to the Reparation Commission in place of the obligations delivered under the Treaty of Versailles:

1st July 1921, 12 milliard gold marks, A bonds;

1st November 1921, 38 milliard gold marks, B bonds;

1st November 1921, 82 milliard gold marks, C bonds.

The Commission may issue the "A" and "B" bonds at any time, but the "C" bonds only when satisfied that the German payments under the schedule are sufficient to provide for the payment of the interest and sinking fund of the "C" bonds. Interest on all the bonds is to be at the rate of 5 per cent. and the sinking fund 1 per cent. per annum. In relation to each other, the "A," "B" and "C" bonds shall be a first, second and third charge on the German payments and funds assigned as security.

(2) Germany shall pay annually, until the redemption of all the bonds:

(*a*) 2 milliard gold marks;

(*b*) 26 per cent. of the value of German exports, commencing 1st May 1921, or an equivalent amount, fixed in accordance with an index to be agreed upon.

Payments shall be made quarterly.

(3) As a firm instalment for the first six months, Germany shall pay at once 1 milliard gold marks, in gold, foreign currencies or drafts at three months on the German Treasury endorsed by German banks.

(4) The Reparation Commission will establish a Committee of Guarantees in Berlin to supervise the execution of the Schedule of Payments. The following funds shall be assigned as special security for the German payments: the German maritime and land customs receipts and a 25 per cent. levy on German exports, as well as the proceeds of such direct or indirect taxes or other funds as may be agreed upon between the Committee of Guarantees and the German Government. In the supervision of German finances the Committee is not to interfere in German administration.

(5) Subject to the approval of the Commission, Germany shall on demand provide material and labour, not only for the

reconstruction of the devastated areas, but also for the development of the economic life of the Allied Powers.[1]

(6) Germany shall facilitate the execution of the British Recovery Act and of any similar legislation enacted by any other Allied Power. Receipts from German exports collected under such legislation will be credited to Germany on account of the payment of 26 per cent. due from her on her exports. The German Government is to refund this charge to the German exporters.

The ultimatum accompanying the London Schedule of Payments aroused a violent political contest in Germany. The embitterment caused by the sanctions which had been inflicted upon Germany a few weeks before was still so intense that a large section of public opinion was inclined also to reject the present ultimatum without further consideration. The impression created by the proclamation of an indebtedness of 132 milliard gold marks was dominant in people's minds, and it was urged that in no circumstances should Germany affix her signature to such a monstrous obligation. The Government, too, was of opinion that the ultimatum could not be fulfilled and should be rejected. The same feeling was voiced in most economic circles, especially by the representatives of industry.

It was very difficult to stand up against this sentiment. The German people wanted to see an end to the hapless condition into which they had been brought through signing the Treaty of Versailles. In doing so, Germany had been compelled to assume obligations impossible of fulfilment; and now she was again to be impelled, by ruthless political pressure, to sign a reparation treaty which similarly disregarded economic necessities. There was a determination not to fall a second time into the error that had been committed at Versailles, but rather to suffer all the attendant horrors of military occupation and economic pressure than again subscribe to conditions which could not be fulfilled. These were the arguments which spoke against the acceptance of the London ultimatum, and which created a deep impression throughout Germany. The following arguments, however, spoke for the acceptance of the Schedule of Payments. The occupation of the Ruhr, the consequences of

[1] This provision modifies paragraph 19 of Annex II. of Part VIII. of the Treaty of Versailles. Heretofore Germany's obligation was limited to the development of the reconstruction of the devastated areas.

which no one could foretell, would greatly aggravate Germany's situation. Germany was even morally helpless against any sanctions which the Allies imposed jointly. The rejection of the ultimatum would not be understood by the world, but would only strengthen the impression that Germany was systematically trying to escape her reparation liability. The London ultimatum in any event represented an important advance on the terms of the Peace Treaty. Whilst the payment of 132 milliards was certainly impossible, a closer analysis of the Schedule of Payments revealed that no such payment was really demanded. Contrary to the terms of the Treaty of Versailles, interest was not to be paid on the entire indebtedness, for what was decisive was not the nominal figure of the debt but the annual payment. This was composed of a fixed sum of 2 milliards and a variable amount dependent on the value of the exports. The German exports represented a value at that time of between four and five milliard gold marks. The payment of 26 per cent. thereon would therefore require at present a little over 1 milliard—making the total annual payments a round 3 milliards. This corresponded to 5 per cent. interest and 1 per cent. amortization on a present value of 50 milliard gold marks. The London ultimatum therefore was not any worse than the German offer recently transmitted to the United States, which promised the payment of a present value of 50 milliards and, in addition, payments to be made on the basis of an increase in prosperity. The rejection of the ultimatum, therefore, was not even logical. Apart from all this, everything must be done to avoid the occupation of the Ruhr. It could certainly not be foretold how Germany could meet the demands made upon her, but it was to be hoped that genuine and serious efforts to make reparation would ultimately bring about a clearer appreciation of Germany's economic necessities among her former enemies.

This line of reasoning prevailed. By a small majority, the Reichstag decided for the acceptance. A new Government, under the leadership of Dr Wirth, accepted the ultimatum as demanded by the Allies unconditionally and without reservations.

PART II

THE POLICY OF FULFILMENT AND THE STRUGGLE FOR THE MORATORIUM

CHAPTER X

THE PAYMENT OF THE FIRST MILLIARD GOLD MARKS

The acceptance of the London Schedule of Payments marks an important epoch in the history of reparation. After the violent storms of the past months it ushered in a period of calm weather, during which the reparation bark, with cautious steering, could continue its difficult course. The new captain, Dr Wirth, was not lacking in courage or self-reliance. He had secured the co-operation of one of the most eminent men of Germany, who unselfishly and resolutely placed his rare talents at the service of the great cause. Walter Rathenau entered the Wirth Cabinet at first as Minister of Reconstruction, but as confidential adviser of the Chancellor he soon settled decisively all the Government's measures of finance and foreign policy.

The reparation problem, if it is compared with the problem presented by the provisions of the Treaty of Versailles themselves, had now assumed a tangible shape. Whilst the accomplishment of the task had not become any easier, its terms had at least been greatly simplified. No further questions were asked as to the payment in full of the notorious 20 milliard gold marks, and no further requests were made for the delivery of the Reichsbank's gold. The struggle over the fixing of the reparation debt had come to an end.

The problem that presented itself now was that of adjustment to the requirements of the London Schedule of Payments, and in the forefront thereof stood the obligation to pay 1 milliard gold marks within three months. I pointed out on several occasions to members of the Reparation Commission in Paris that it was a grave mistake to demand so large a payment of Germany, in her weakened state of finances, within so short a time. The invariable answer was that this demand only represented the acceptance of the German Government's own offer of April 1921. It had been assumed that the German Government had the money at its disposal, as otherwise no such offer should have been made. Now, the milliard was not on hand, and it was necessary to procure it. As the value of the mark had somewhat improved after the acceptance of the ultimatum, it

was possible during May to purchase for the Government, and to turn over to the Reparation Commission, foreign exchange to the extent of 150,000,000 gold marks. For the balance, drafts on the Treasury, maturing 31st August 1921, were drawn as stipulated. The four leading German banks assumed the bank guarantee demanded by the Allies, though they were far from controlling the funds necessary to meet such a guarantee in case of necessity. It was clear that they urged the Government at every opportunity to procure the necessary foreign exchange as promptly as possible. But since it was a matter of general knowledge that the Reich had to provide for such immense requirements within a short time, the amount of foreign currency on offer in Germany, which was already scanty, shrank steadily. The mark, which from January to June 1921 had been practically stationary, resumed its rapid downward course on account of the Reich's pressing demands for exchange. The more it declined the more the precious exchange was hoarded and sought after in Germany. Gradually it became possible to procure for the Reich the larger part of the milliard. There remained, however, a final shortage of 400,000,000 gold marks, which could only have been acquired at the expense of tremendous depreciation of the mark. The issue of an internal gold loan was not attempted for fear of failure. At last arrangements were effected abroad, especially in Holland and England, upon onerous terms, for credits running for six weeks, which, together with the surrender of gold and the pledge of silver by the Reichsbank, made it possible to pay the total milliard on 31st August 1921.

This haphazard and short-sighted financing was soon to have evil consequences. It had ruined the foreign exchange market in Germany. It was now necessary to repay the short-term credits due to the foreign bankers, and the only resource available therefor was heavy sales of marks. The consequence was an even more precipitous fall of the mark in September 1921, although no payments on reparation account were for a time impending. The dollar, which prior to June had been quoted for several months at about sixty marks, rose above a hundred marks.

The second task of the German Government was to settle its relation to the Committee of Guarantees created by the London

ultimatum. A satisfactory start was made. The Committee, under the chairmanship of the French delegate, Mauclère, proceeded to Berlin in June 1921, where it entered into business-like and thorough discussions with the Government. In several notes to the German Chancellor, dated 28th June, the Committee confirmed an arrangement which not only seemed to put the payments up to 1st May 1922 on a tolerable basis, but wisely circumvented the obstacles involved by the control over German finances. Estimating the prospective German deliveries in kind for the year at 1·2 milliard gold marks, and allowing for collections under the British Recovery Act, the Committee calculated that only 300,000,000 gold marks would remain to be paid in cash up to 1st May 1922, and that it would therefore not be necessary that the pledged revenues should be turned over before about the end of 1921. As regards subsequent years, it was agreed that it would be sufficient if the German Government made available as security for reparation certain definite revenues, such as the capital tax, taxes on sugar, tobacco and alcohol, the tax on coal, and the turnover tax to the extent of 50 per cent. of its yield. The Committee waived for the time being the actual imposition of a general levy on exports of 25 per cent. and arrived at an agreement with the German Government that it should turn over the equivalent of 25 per cent. of the value of the exports to the Committee in instalments in foreign exchange. For current intelligence respecting the finances of the Reich a permanent delegation of the Committee of Guarantees was installed in Berlin.

As early as September 1921 it became evident that too optimistic a view had been taken of developments. German deliveries in kind fell so far short of expectations that they hardly sufficed to cover the reparation instalment due on 15th November. It was probable, therefore, that nearly the total fixed quarterly instalment of 500,000,000 gold marks due on 15th January 1922 would have to be paid in cash. The first instalment of the levy on exports, amounting to more than 250,000,000, was to follow on 15th February.

Just at this time the fall of the mark assumed disquieting proportions. It became increasingly difficult to acquire foreign exchange for reparation payments either by raising credits or by selling marks. The continued depreciation of the mark resulted

in steadily growing deficits in the Reich budget, since the revenue from taxes naturally did not increase as rapidly as the requirements of the Reich for salaries, wages and the increase in the cost of supplies. In this predicament the Committee of Guarantees could neither helpfully intervene nor arrive at a decision of its own. In September and October it deliberated once more for three weeks in Berlin. All of its members, with the exception of the French, were convinced that it was necessary to change or postpone the impending instalments under the London Schedule of Payments, but the result of the Committee's work was confined to formal instructions as to how the receipts in paper marks from the pledged revenues of the Reich were to be transferred to the Committee every ten days and converted into foreign exchange.

Thereupon in November the Reparation Commission itself, for the first time, repaired to Berlin in a body, for the purpose of investigating conditions on the spot. The situation had in the meantime gone from bad to worse. Under the influence of the partition of Upper Silesia, which gave to Poland by far the larger part of the industrial regions, with their wealth in coal, iron and zinc, a panic ensued on the foreign exchange market, which was already sensitive, and the mark fell precipitously to more than 300 to the dollar. The Commission was at a loss to know what to do in Berlin, except strongly to urge the German Government to pay the 15th January and 15th February maturities without fail if serious consequences were to be avoided. It would have to secure the necessary foreign exchange in some way or another, either from German nationals who had credit balances abroad or from foreign lenders. The difficulty of the situation was not to be denied, but it was more of a financial than an economic nature. The fault, moreover, was with the German Government, which had failed to take timely steps to put its budget in order and to prevent the increase in the note circulation. With this sage admonition the Reparation Commission returned to Paris.

CHAPTER XI

DELIVERIES IN KIND UNDER THE TERMS OF THE TREATY OF VERSAILLES

A SUMMARY of the terms of the Treaty of Versailles covering deliveries in kind has been given in Chapter II. The coal deliveries have already been discussed in detail. It now becomes necessary to complete the review of this subject by describing how the other deliveries in kind were carried out and what experience was gained thereby. Not only coal, but also the other deliveries in kind, gave rise from the beginning to serious friction between Germany and the Reparation Commission. One would imagine *a priori* that deliveries for the reconstruction of the devastated areas would prove a useful form of reparation, attractive to both parties, and that a people industrially so capable and well organized as the Germans would much better be able to repair war damages by delivering their own products than by payments of cash.

This is, however, only theoretically correct. Reparation presented an entirely different picture in practice.

Financially, of course, deliveries in kind offered Germany some material advantages as compared with cash payments. They were executed by home industries, which received payment in German currency. To that extent, therefore, the Government did not have to provide foreign exchange for reparation and did not have to impose a further strain on the tottering German currency. But this remained true only so long as deliveries in kind could be financed out of budget surpluses or ordinary loans. When once the budget showed a deficit and orderly credit arrangements became impossible—and this was a chronic condition with the continued decline of the mark—the financing of these deliveries in kind by means of the printing press was quite as ruinous to the German currency as the sale of marks abroad. Deliveries in kind, moreover, are possible only when both parties to the contract are agreed with regard to the merchandise itself, the price, and all other terms. This requires perfect freedom of both parties in relation to the delivery.

Under the Treaty of Versailles, however, the deliveries in kind

were compulsory. There was no question as to any agreement regarding terms. The Treaty of Versailles makes a one-sided and peremptory demand upon Germany to supply the commodities required by the Allies without regard to commercial usage. It leaves the Reparation Commission, which is not impartial, to decide whether Germany is able to make delivery and whether the quantities called for can be furnished without injury to German domestic requirements. It also leaves the Commission to fix the terms of delivery. A system so arbitrary and economically unsound was inevitably bound to lead to conflict.

This proved to be the rule in practice. The deliveries of dyestuffs and chemical drugs furnished a striking exception, and for this reason there has been little ado about them. After initial difficulties and careful discussions they proceeded quietly in a mutually satisfactory manner. I attach importance to paying tribute to this fact, because it shows how seemingly impossible demands may be made bearable through skilful and business-like handling. It is true that the task was greatly facilitated in this instance by the excellent organization of the German chemical industry, which was charged with these deliveries, and the brilliant negotiating skill and wide international experience of its representatives, more especially of their spokesman, Carl von Weinberg.

The delivery of by-products of coal provided for in the Treaty, such as sulphate of ammonia, benzol and coal tar, likewise proceeded satisfactorily and without friction after the difficulties of organization had been overcome.

For all deliveries except ships, coal and chemical products the Treaty of Versailles prescribed a special procedure, which is roughly as follows.

Within a definite period—which was extended repeatedly by the Reparation Commission—the Allied Governments presented to the Reparation Commission lists of the articles required. In passing on these lists the Commission was to see that the economic life of Germany was not disorganized by the demands to the detriment of her ability to make reparation. After revision and approval, the lists were passed on to the German Government, to which it was left to arrange for deliveries by its domestic manufacturers to the Reparation Commission. Germany's obligation to deliver origin-

ally extended only to live stock and material for reconstruction of the devastated areas.

The London Schedule of Payments, as we have seen, considerably enlarged the area of obligatory deliveries. With the approval of the Reparation Commission, the Allied Powers might now demand material and labour for the general promotion of their economic life. The value of such deliveries was to be fixed by a valuation commission, consisting of one representative each from Germany and the Power interested, and, in the event of disagreement between the two, of a referee to be nominated by the Reparation Commission.

For by that time experience had already taught something. By the Treaty of Versailles the determination of prices for deliveries in kind was placed as a rule in the hands of the Reparation Commission. It was to fix *normal* prices for deliveries for reconstruction, taking into account the prices at which similar articles could be purchased in Allied countries.

On these very general lines the organization for deliveries in kind was built up. The first lists of the Allied Governments were received in March and April 1920. These demands represented approximately 10 milliard gold marks. A large proportion consisted of timber and industrial material. In addition to staple articles the lists also contained thousands of different articles which it was difficult to separate and classify, and to avoid loss of time the Reparation Commission referred the lists without detailed examination to the German Government. While the latter had formed an extensive organization under the Reich's Commissioner for Reconstruction, it could make little headway with the mass of material transmitted, as the necessary specifications, more particularly of the prices to be allowed, were lacking. It was not until September 1920 that it was possible to transmit to the Reparation Commission various offers—which, however, included relatively little material for reconstruction proper. Germany made in the early stages no offer at all of bricks and tiles, the need for which was especially urgent. The case of material to be made to specification, particularly machinery, which required careful examination of every individual order, was even worse. The German Government endeavoured to assist by arranging that their

reconstruction office in Paris should furnish a list of German firms which were ready to deliver on reparation account. The interested parties in the Allied countries were to get into direct communication with these firms, in order to settle the technical conditions, the time-limits and the prices. In this way deliveries began to move gradually, by the end of 1920, but the results remained disappointing. With the best intentions on all sides it was impossible, under the cumbrous organization provided by the Treaty, to arrange deliveries so that they should somehow keep pace with the actual work of reconstruction. For what was the procedure? The owner of a house or factory destroyed through the war had first to apply to his Government. The Government tabulated all the claims of its nationals in uniform lists and passed them on to the Reparation Commission, which referred the total claims of all the Allied countries to the German Government. The latter then had somehow to distribute this enormous mass of demands over German industry. The manufacturers, however, could do nothing with the scanty information furnished. If any offers were at all possible on such a foundation they had to be referred back through the German Government and the Reparation Commission to the individual Allied Governments, which in their turn had to communicate with the claimants for damages. A plan as complicated as this was bound to fail lamentably in practical operation. Organization on a large scale for the reconstruction of entire regions is impossible unless the reconstruction of whole towns and villages is permitted on a uniform plan. In that case, however, the work should have been undertaken between the States—*i.e.* the German Government should have been commissioned to reconstruct certain regions according to a definite plan, with German labour, and all necessary material, under a comprehensive German industrial organization. This is what Germany offered at the outset and repeatedly thereafter, and what the Allied Governments, for obvious reasons, did not care to accept. They neither could nor would exclude their own industries from the work of reconstruction. According to French laws, moreover, every claimant for damages had the right to determine the way in which his house or factory should be reconstructed. The whole procedure established by the Treaty of Versailles was purely theoretical; it was all in the air and soon led to serious disappointment.

The actual reconstruction work was in fact carried out without German co-operation on any appreciable scale. In most cases claimants for damages were unable to wait until the intricate procedure through the Governments and the Reparation Commission led to results. The serious reproaches which have been directed against the German Government for its attitude toward deliveries in kind recoil in the main upon the authors of the Treaty. The fault lay with the system, which expected from a bureaucratic organization the execution of a task which could be performed only through individual practical effort.

The idea of prescribing deliveries without fixing the price was unprecedented. It was obvious that the Reparation Commission would desire to obtain the deliveries as cheaply as possible. It was easy to understand on the other hand that the German Government had an interest in obtaining the largest possible credit on reparation account, but as it was bound to indemnify the German sellers it endeavoured to limit the amount to be paid to them. This resulted in a conflict of interests all along the line. The difficulties were intensified by the desire of the German Government, on social grounds, to distribute the deliveries equitably over the whole field of German industry—a fine opening for an orgy of bureaucracy.

The question of fixing prices was the subject of a stubborn and protracted contest between the German Government and the Reparation Commission. This contest involved not only the amount itself, but also the question of the currency in which the price should be fixed, whether in German currency, or in the currency of the receiving country, or in gold. In order not to delay deliveries on account of this controversy, the Reparation Commission decided that, on principle, deliveries should be made even though the price had not yet been fixed. This, of course, was like pouring oil on the flames.

The German Government first insisted that prices should be fixed in gold, which seemed to offer a safe basis for computing the value of deliveries. Even this was to the interest of Germany only so long as the German paper mark continued to decline. In the spring of 1920 the mark, for some time, rose considerably. This made it more difficult for the German industries to work on a gold basis, and made it seem desirable on the contrary to fix prices in paper

marks. Finally, both sides agreed that it was necessary to fix the price definitely in the currency of some one country and to have each of the countries concerned assume the risk of fluctuations in the rate of exchange. Credit on reparation account was thereafter given in gold marks, on the basis of the rate of exchange of a given date—namely, the date on which the German offer was accepted by the Reparation Commission.

The above shows how manifold were the difficulties which developed in connexion with deliveries for reconstruction. It soon became evident that it was necessary to break with the system of the Treaty. In the autumn of 1920 discussions were opened between the German office in Paris and the Reparation Commission for the purpose of introducing free business intercourse between the claimants for damages and the German industries.

In the Conference of the experts at Brussels in December 1920 deliveries in kind played an important part. At that time there were people in France who were not afraid to urge that it was necessary to come to an economic understanding with Germany. As I have already mentioned, I thoroughly discussed with the French delegates at Brussels the question of establishing direct relations between the French buyers and the German sellers. The difficult commercial negotiations for the delivery proper were to be taken out of the hands of the bureaucracy of the countries and the co-operation of the State limited more to control over the payments.

I turned this idea to account in Brussels at a moment when it was necessary to introduce something positive into the deliberations in order to avoid the danger of a rupture. The Conference resolved to have the organization for deliveries in kind further examined by discussion between Allied and German representatives. This was done in Paris during the early part of January 1921. At that time Seydoux prepared a plan under which German performances for the first years were to consist mainly of deliveries in kind. Orders, deliveries and the fixing of prices were to be left to private initiative. Only a few staple articles and bulk deliveries were to be handled directly between the respective Governments. In all other cases the interested parties had to make a complete and final contract. Payment was to be arranged for through a mixed bureau, the Allied section of which saw to the settlement between the parties

giving the order and the Allied Government interested, while the German section gave instructions for payment by the German Government. The German paying office was to be authorized once for all to make the payment, and the equivalent was then to be credited to reparation account.

Seydoux thought of extending the procedure to include deliveries not intended for reconstruction, in which case a part of the price was to be paid in cash by the Allied buyer to the German seller. The system was to be used also in the event of German participation in the work of reconstruction. Seydoux further had it in mind to take advantage of German exports for reparation by providing that the sale of goods abroad should be left entirely in German hands, but that a part of the proceeds should be applied to reparation. This plan was to be applicable to staple articles only, such as coal, potash, nitrogen, timber, dyestuffs, sugar, electrical materials, steel and iron products, paper. The German Government was to refund the levy to the exporters.

This idea was not unsound, and might have been practicable within reasonable limits, but in the hands of the politicians it was turned into a brutal assault on German exports by which, according to the Paris Resolutions, 12 per cent., and according to the London ultimatum 26 per cent., of the total German exports were seized for reparation, regardless of what sort of merchandise was involved and whether the export was profitable or not.

CHAPTER XII

THE WIESBADEN AGREEMENT OF 6TH AND 7TH OCTOBER 1921

The political storms of the spring of 1921 also had their reaction on the settlement of deliveries in kind. In June 1921 feelers were put out from Allied quarters with a view to inducing Rathenau to come to Paris for a consultation with the Reparation Commission. Shortly thereafter Loucheur and Rathenau agreed to settle the question of deliveries in kind from Germany to France by an agreement. After several preliminary meetings the so-called Wiesbaden Agreement was signed, on 6th and 7th October 1921. This Agreement refers exclusively to deliveries for reconstruction, other deliveries—such as coal and dyestuffs—remaining subject to the terms of the Treaty of Versailles.

The Wiesbaden Agreement contemplates the creation of a German corporation of a private character, which, acting independently of both Governments, is to undertake deliveries to French claimants for damages. A commission, comprising three members—one Frenchman, one German, and one arbitrator, to be selected by the former two—arranges all disputes regarding the possibility of deliveries and all conditions of delivery. It also fixes the prices in so far as they are not agreed upon between the buyer and the seller. In principle the settlement of all terms of delivery is left to direct intercourse between buyer and seller—particularly for special material, such as machinery and industrial plant. The intention was to stimulate to the greatest possible extent deliveries in kind by Germany to France. During the period from 1st October 1921 to 1st May 1926 deliveries to a total value of 7 milliard gold marks were contemplated. Of this, only 1 milliard gold marks per annum, as a maximum, was to be credited on reparation account. Settlement for the balance on the part of France was to be deferred until 31st December 1937, with interest at the rate of 5 per cent. The detailed terms of the Agreement regarding the method of allowing credit are complicated and offer little of general interest. France was not to pay in any one year on reparation account, for all deliveries received by her, more than her proportion of 52 per

cent. of the total payments for reparation made by Germany in the respective year.

The Wiesbaden Agreement met with strong opposition on the part of the Allies of France, as well as in Germany. As between the Allies, it involved financial advantages for France to which she was not entitled under the Treaty of Versailles. Her allies justly objected that their interests might be prejudiced by this one-sided preference to France, as the excess in deliveries to France would unfavourably affect Germany's capacity to pay. It certainly appeared strange that Germany, after accepting the London ultimatum under pressure, now voluntarily offered to do considerably more for France in the form of deliveries in kind than was required by the Schedule of Payments, for all deliveries in kind under the Wiesbaden Agreement, which Germany had to advance to France, had to be paid by the Government to the German sellers in German currency. The annual burden of the Reich budget was increased by this amount, and for this reason the Wiesbaden Agreement did not lack opponents in Germany.

The conflict of interests within the Reparation Commission persisted for a long time. It was only on 11th March 1922 that the Allies came to an understanding regarding the Wiesbaden Agreement. The approval of the Commission followed on 31st March 1922, some of the terms of credit being modified in the interest of the other Allies.

Notwithstanding all objections that have been raised against the Wiesbaden Agreement, it appears to me that it was useful at the time. The German Government was following a policy of fulfilment and of reconciliation with France. To any informed person it was already apparent that the London Schedule of Payments could not be fully maintained, at least for the first year. New political conflicts were impending—as always to the disadvantage of a helpless Germany—in the event of default on any of the payments. If she wanted to give proof of her sincere intentions to meet her obligations, deliveries in kind were the only method. Moreover, by this means German industrials were kept busy, while as to France, deliveries in kind were at least quite as urgent as cash. To prepare the way for active business relations between the two countries was the quickest means to overcome misunderstandings and the

sentiments of hatred and fear. Through commercial intercourse an understanding could be brought about that might be of considerable importance in another period of international tension. If France received in abundance the deliveries in kind needed for reconstruction purposes she would show appreciation of the fact that it was not possible for Germany to find foreign exchange to meet the London Schedule of Payments in full.

This was more or less the train of thought which led Dr Rathenau to Wiesbaden, and similar considerations may have been operative on the French side. Both parties must have recognized that merchandise to the value of 7 milliard gold marks could not possibly be delivered for reconstruction within a period of four and a half years. The high figures served both parties as political window-dressing. The deliveries under the Wiesbaden Agreement were to be developed gradually out of modest beginnings, and were dependent in any event on breaking the resistance of the French industrials to a wholesale admission of German products. It was not likely that the Agreement would impose a very heavy burden on the German Government from the start. As a matter of fact deliveries in kind to France—with the exception of coal, which does not fall under this Agreement—have never ceased to be modest in amount. In the interest of her home industry, France has made but sparing use of her right to call for deliveries of merchandise from Germany.

The introduction of free intercourse between the Allied buyers and the German sellers was followed up energetically by the Reparation Commission also. Bemelmans, as representative of the Reparation Commission, and Dr Cuntze, on behalf of the German Government, signed a preliminary agreement in Berlin on 28th February 1922, and a definite agreement on 2nd June 1922, which, closely following the Plan of Seydoux, left the execution of deliveries in kind to private business, and provided a practical regulation of the method of payment. Products, the export of which from Germany was either prohibited or subject to legal restrictions, were excluded from the agreement. Deliveries of such goods as foodstuffs, fodder, fertilizers, animals, timber, oil, oil seeds, cement, benzol, leather, skins, tanning material, etc., could be demanded, as heretofore, only under the terms of the Treaty of Versailles—*i.e.*

by applying to the Reparation Commission. The Agreement also excluded goods imported into Germany and not put through finishing processes, foodstuffs prepared from imported goods, and goods manufactured out of gold, platinum and silver. For a number of other articles the application of the Agreement was permitted, but part of the price of the goods was to be paid by the buyer in cash, on the ground that they could be produced only by the use of imported raw material. Deliveries for the reconstruction of destroyed houses and factories were free from this latter restriction.

The contracts were to cover a minimum value of 1 500 gold marks. They were to be submitted within a fortnight to the Reparation Commission, which in turn notified the German Government. The contract was considered as approved if no objection was raised within a fortnight by any Government concerned. In the event of objection being raised, the decision rested with the Reparation Commission. The German Government granted any export licence required for all approved contracts and also undertook to pay the German seller. The purchase price was credited to the German Government on reparation account, the respective Allied Government being debited with a corresponding amount. Payment was made by means of cheques provided for the purpose.

The Gillet-Ruppel agreements of 15th March and 6th and 9th June 1922 are modelled on the Bemelmans-Cuntze agreement. They regulated the deliveries in kind to France, modifying the Wiesbaden Agreement accordingly. Both Governments stated therein emphatically that no pressure would be used to assign the orders to particular German firms or districts.

The free procedure was to apply only to deliveries for reconstruction; for all other orders the provisions of the Treaty remained in force.

For a time it appeared as if the reconstruction of the devastated areas with German co-operation would now proceed effectively; even the powerful Hugo Stinnes approved, and availed himself of the Wiesbaden Agreement. Following a conference at Heimburg-on-the-Rhine, from 30th August to 4th September 1922, he entered into a contract with the Marquis de Lubersac, President of the French Co-operative Societies for Reconstruction, which provided for a comprehensive commercial organization for deliveries in kind.

But this much-advertised contract remained an empty shell: it was never put into operation, and a few months later the French were in the Ruhr District.

In conclusion, a few figures are of interest. The total of the German deliveries in kind to the several Allies under Annex IV. § 8 of the Treaty—*i.e.* exclusive of ships, coal and dyestuffs—aggregated in 1922 approximately 230,000,000 gold marks. Of this amount 19,000,000 went to France, 17,000,000 to Belgium, 47,000,000 to Italy and 116,000,000 to Serbia. Thus Serbia secured the lion's share, having no domestic industries to oppose German deliveries in kind. Even in the year 1923, after the occupation of the Ruhr, deliveries in kind to Serbia continued. In the aggregate Serbia received up to 30th June 1924 on reparation account German commodities of a value of 264,000,000 gold marks—much more than her share.

In order to utilize German labour for reparation to a larger extent than had so far been possible for reconstruction purposes proper, the French Government presented to the Reparation Commission in July 1922 a programme of public works to be executed by Germany. This included water-power construction on the Rhone, the Truyère and the Dordogne rivers, as well as a "North-east Canal" to connect the Saar and the Moselle with the Meuse and the Schelde. The cost of the work was estimated at 3·9 milliard francs, the construction to be finished within ten years. Up to the present time the project exists only on paper.

The deliveries of live stock provided for by the Treaty met with particular difficulties. Germany's live stock had suffered severely during the war. To the starving population the demand for the delivery of hundreds of thousands of milch cows appeared a crying injustice. The situation was further aggravated by the alarming spread of foot-and-mouth disease in Germany during the years immediately following the war. In the course of endless negotiations the programme for the delivery of live stock was changed again and again. Finally Germany was compelled to surrender a very considerable quantity of live stock. By 31st December 1922, 101,659 horses, 174,208 head of cattle, 231,393 sheep, 21,664 goats and 245,668 head of poultry had been delivered.

CHAPTER XIII

RESTITUTION AND SUBSTITUTION

Under Art. 238 of the Treaty of Versailles Germany was obliged to make restitution without cost of whatever had been removed during the war from the Allied countries and could be identified in Germany or in the territory of any of her allies. Restitution, as we have seen, was inaugurated and to a large extent executed even during the Armistice, particularly restitution of railway and industrial material. The Allied organization had its seat in Wiesbaden, the German Commission which corresponded to it in Frankfort-on-the-Main.

With the willing co-operation of the German authorities it proceeded on the whole quite satisfactorily. The restitution of agricultural implements, however, was very difficult, and would have necessitated a search of all estates and farms and the removal, one by one, of any foreign implements found, at the risk of delaying the cultivation of crops and other agricultural work. In order to overcome these difficulties France and Germany agreed that the restitution of agricultural implements should be replaced by the delivery of new material of a value of 20,000,000 gold marks. This was the beginning of substitution so called—a procedure which at first met with opposition in the Reparation Commission, inasmuch as it enlisted German deliveries primarily for France and Belgium, whilst England had no interest in it. Gradually, however, all sides realized that restitution as provided by the Treaty could not possibly be carried through in practice. In most cases the Allied owner could not wait for the return of the article taken away from him; he simply procured a new one and that ended the matter as far as he was concerned. In Germany, on the other hand, everything possible had to be done to bring the annoyance of searches in factories and private houses to an end. Thus, gradually, various agreements of a general character were entered into under which the duty of restitution was replaced by the delivery by Germany, to the several Allied Governments, of new material of an agreed value. The principle of substitution was also adopted as regards live stock.

The value of all that Germany has returned amounts to about 500,000,000 gold marks, exclusive of money and securities. In accordance with the provisions of the Treaty of Versailles Germany has received no credit for this on reparation account.

The agreements for substitution are still in force to the extent of several hundred million gold marks, principally with France and Belgium.

CHAPTER XIV

THE FIRST APPLICATION FOR A MORATORIUM

By the autumn of 1921 it had become apparent to anyone in touch with economic affairs that Germany would not be able to meet out of her own resources the next payments falling due under the London Schedule of Payments. As early as August 1921 John Maynard Keynes wrote that Germany would have to default on her payments between February and August 1922. Since then the circumstances in which Germany managed to pay the first milliard gold marks had shown very clearly that this experiment would not succeed a second time. In fact, the effect of this payment on the German currency as well as on the foreign exchange market was astonishing. On 15th May the German Government had on hand in different currencies the 150,000,000 gold marks due on 31st May. At the request of the Reparation Commission these amounts of foreign exchange had to be converted into dollars within ten days and transferred to the Federal Reserve Bank of New York. The forced purchase of dollars resulted in an immediate decline of all the currencies which Germany had to sell. This movement continued even after 31st May 1921, because international speculators continued to buy dollars on the assumption that the Reparation Commission would require the payment of the entire milliard gold marks in dollars. As a result, the English pound, between 21st May and 30th July 1921, declined in New York from 4·00 to 3·57 dollars, the French franc from 8·78 to 7·64, the Dutch guilder from 35·95 to 30·78, the Belgian franc from 8·77 to 7·37, and the Swedish krone from 23·65 to 20·45. The Reparation Commission thus learned the lesson that German payments would have to be accepted not only in dollars but also in other foreign currencies, even at the risk of a possible exchange loss. Following this decision foreign exchange in New York, with the exception of French and Belgian francs, showed a strong recovery.

We have already referred to the movements of the mark connected with the payment of 1 milliard gold marks. The decline of the mark did not come to a stop until the first part of December

1921, when the hope dawned that through some international arrangement Germany might be relieved for some time of further large payments. Up to that time everybody knew from the London Schedule of Payments that Germany had to meet at specified dates certain payments of large amounts. It therefore was perfectly safe business for international speculators to acquire foreign exchange by the sale of marks and resell it later at higher prices to the German Government, which had to be always in the market as a buyer of foreign exchange. Since none of its revenues was received in foreign money, the German Government was compelled to take advantage of every offer of foreign exchange in order to avoid the infliction of further sanctions for default in payment. During the summer of 1921 the German demand for foreign exchange for purposes other than reparation—especially for the importation of foodstuffs and the requirements of the clearing offices—had been comparatively small. The acquisition of foreign exchange in the autumn and winter of 1921 was all the more difficult in that the domestic requirements which had been long repressed made themselves felt. It was evident to everyone that affairs could not continue in this way, but opinions differed widely as to what should be done. An attempt was made in Germany first to arrange for a loan. In September discussions were initiated between the German Government and representatives of industry with a view to inducing the industrialists to place their foreign credit at the disposal of the Reich in order that the next instalments under the London Schedule of Payments, up to 1 milliard gold marks, might be met by means of a loan. The negotiations were but lukewarm. It soon became clear that there could be no question of transferring foreign credit balances held by industry to the Treasury of the Reich; the only thing to be considered was the flotation of a large loan abroad by utilizing the foreign credit of the industrialists. Then the so-called "Hachenberg Plan" appeared: a credit combination, embracing industry, commerce and agriculture, was to issue a loan secured by lien on all real estate and the property of all productive enterprises. The sums required for interest and amortization were to be credited against the taxes due by the enterprises thus pledged. The plan did not progress beyond the approval of the Reichswirtschaftsrat (Economic Council of the Reich) and was rejected by the industrialists.

At a meeting of the Association of the German Industries held on 4th and 5th November 1921 it was resolved to continue the credit negotiations with the Reich, but to insist on the introduction of strict economy in the entire budget of the Reich, on the relief of economic life from all restraint upon its operation and development, and on the immediate transfer of all public utilities then in Government hands to private enterprise, in order that their operations might produce sufficient revenue to meet interest and amortization charges on the proposed foreign loan, instead of being a burden upon the Government as heretofore. The demand for the conversion of the German railways into a private enterprise provoked a storm of indignation. The Socialists made counter-demands; they demanded, *inter alia*, the participation of the Reich in the capital of industries, Government ownership of the coal mines, strict seizure of foreign exchange resulting from exports, restriction of imports, increase in export duties, and immediate collection of direct taxes. In the internal political conflict thus arising, the plan for an industrial loan fell through.

The attempt of the German Government to negotiate, on its own credit, a loan in London of about one milliard gold marks was likewise a failure. In a letter addressed to Herr Havenstein, President of the German Reichsbank, the Governor of the Bank of England explained that, in view of the conditions which determined the obligations of the Reich to the Reparation Commission in respect of payments during the coming years, neither a long-term German loan nor a short-term bank credit was obtainable in England.

The German Government then decided to notify the Reparation Commission, through a note signed by the Chancellor on 14th December 1921, that it was unable to secure the total amount of the instalments maturing on 15th January and 15th February 1922. Even by making every effort and without considering the requirements of its own budget it was possible to secure only from 150,000,000 to 200,000,000 gold marks for the Reparation Commission, apart from deliveries in kind and credits under the Recovery Act. The German Government was therefore obliged to request the Reparation Commission to grant a postponement for the payment of that portion of the instalments of 15th January

and 15th February which it would not be able to pay on the due dates.

This was the demand for a moratorium. The Reparation Commission answered on 16th December that it could only take note of the German Government's *démarche* with surprise, and that it would not consider the request for an extension of time until the German Government had justified it in detail. The Reparation Commission at the same time expressed its regret that the German Government had taken no steps whatever in compliance with the views of the Commission to balance the budget and to restrict the note circulation.

This exchange of notes illustrates once more the lack of mutual understanding, at a critical moment, between the Reparation Commission and the German Government. Forced into their political blinkers, they argued with one another to no purpose. After the presence of the Committee of Guarantees in Berlin for several weeks, and the visit of the entire Reparation Commission, there was reason to expect that at least the path had been prepared for some kind of understanding. Nothing of the sort is to be found in the exchange of notes, only the cautious, suspicious reserve of two parties who do not understand each other.

At the request of the German Government a meeting of the Reparation Commission was held on 29th December 1921, at which the arguments for the German demand were heard. The result was disappointing; it only added to the existing tension. The German Government thought it proper to inform the Reparation Commission that it had already had preliminary discussions with some of the Allied Governments regarding reparation, the result of which it did not wish to anticipate. This allusion had reference to confidential negotiations carried on by Dr Rathenau in London. After the decision of the Upper Silesian question he had officially withdrawn from the Cabinet, but went to London in December 1921, as representative of the German Government, to seek counsel and aid in the entourage of Lloyd George and in the City.

This constituted a new attempt to appeal over the head of the Reparation Commission—cumbersome and disunited—directly to an Allied Government, where it was hoped to meet with a better understanding of the German difficulties. Rathenau, who himself

had not yet personally experienced the sore disappointments of these tactics, believed that he was bound to succeed in advancing the reparation question by direct negotiations with Lloyd George. The friendly reception accorded to him in London strengthened his hopes. He overlooked the fact, however, that negotiations with a single Allied Power would provoke greater opposition from the other Allied Powers, and consequently hurt the German cause. Viewed in this light, the attitude of the Reparation Commission in regard to the first German demand for a moratorium can be better understood.

CHAPTER XV

THE FALL OF THE MARK AND THE UNITED STATES

Before proceeding with later developments, it is necessary to refer back to events which occurred far from the seat of the reparation war at the time of Dr Rathenau's efforts.

On 31st August 1921 I had relinquished my official position as representative of the German Government with the Reparation Commission in Paris, and gone to New York on private business. At the outset I had accepted the difficult and thankless task in Paris only for a maximum period of two years, prompted by a desire to see whether the delicate problem of reparation could be brought nearer to a sensible solution by the calm methods of business-like intercourse. The political storms which led to the London ultimatum, however, had destroyed the germs of an understanding between the Reparation Commission and the German Government. Immediately after the London Conference, in March 1921, I tendered my resignation, and only the earnest solicitation of the Wirth-Rathenau Government induced me to remain in Paris for a few months longer.

Upon my arrival in New York, at the end of September 1921, I found the interest of the American business world centred upon the recent collapse of the Reichsmark. As in many other countries, so in the United States, the public had made heavy purchases of marks from 1919-1920 on a rapidly declining market in the belief that Germany, with her diligent and disciplined population, her well-equipped and enterprising industry and tried ability for organization, would recover in a comparatively short time from the political catastrophe of the war, and that the collapse of the German currency was only a passing phenomenon. Immense numbers of marks had thus been gradually transferred to the American people. After the big fluctuations of the mark in 1920 a certain stability had been at first attained which was very helpful in re-establishing business connexions with Germany. The formal conclusion of peace, in August 1921, between the two countries justified the hope of a speedy improvement in their business relations. This prospect was all the more welcome to America, inasmuch as unemployment,

the decline in prices, and consequent heavy business losses resulting from the post-war depression were felt particularly in the United States. At that time a large speculative interest in marks no longer existed in New York proper, because the disappointment over the reparation question suggested caution, but heavy transactions in German marks took place in New York for South American account, and selling orders for marks went there in large amounts, mainly via Amsterdam. This created the almost universal impression in American banking circles that the Reichsbank itself was selling marks on a large scale through its Dutch connexions, and that the cause of the recent decline of the mark was to be sought in these sales. Intelligent observers thought this regrettable, but natural, as apparently this was the only possible way to meet the payment of the first milliard gold marks under the London Schedule of Payments. The daily Press, however, and many business circles, were of the opinion that the reckless sale of Reichsmarks was the outcome of a carefully planned policy. I had often to listen to sharp criticism of the German Government for keeping the printing presses busy and systematically depreciating the mark by deflation in order to throw dust in the eyes of the Allies and furnish proof of Germany's inability to make further reparation payments. I took it upon myself to combat this erroneous opinion of Germany's financial policy among the leading bankers. Any hope of American help was, of course, out of the question as long as suspicion existed that the German Government itself, directly or indirectly, pursued such a frivolous policy to escape its reparation obligations. Thus I was forced to realize that in America, upon whose assistance all German hopes were built, the collapse of the mark not only injured the good name of the German Government, and intensified the general distrust of the whole of Germany, but also most seriously jeopardized the credit of German banks and German industry, and threatened to ruin the commercial relations just established. Upon my urgent representation in Berlin a categorical statement was issued by the Reichsbank that it was not selling marks abroad, either for the payment of the milliard gold marks or to meet other obligations, and that it had no connexion with the sale of marks through Holland. The only explanation was that the German public itself, either from necessity or from speculative motives, was

throwing marks on foreign markets in order to obtain foreign exchange. If such was the case, then everything had to be done on the part of Germany to put a stop to the continued fall of the mark, and especially to pernicious bear speculation. It was unavoidable that everyone in America should hesitate to transact any business with a country whose currency was headed irretrievably towards absolute zero. It was therefore necessary, in the interest of private business as well as of Germany's good name, at once to take energetic measures for the support of the mark, which had declined heavily in September 1921. I was well aware that German effort alone would not be sufficient, and that any prospect of prompt and complete success was dependent on powerful American help. I discussed the question thoroughly with prominent American bankers and with Government circles in Washington. Nearly everywhere I found a willing ear and understanding. The preliminary condition, however, for any active support in America, was that the German Government and the Reichsbank should first take steps of their own accord to stem a further decline of the mark and bring about a certain stability at least on the prevailing low level.

The true reason for the continued sale of marks by owners and speculators was of course to be found in the pessimism regarding Germany's economic future, which had spread all over the world in consequence of her enormous reparation burden after the London Schedule of Payments. If, therefore, any lasting improvement and some sort of stabilization of the mark were to be accomplished, a vigorous effort on the part of the German Government and the Reichsbank, with possible assistance from foreign banking circles, would have to go hand in hand with an agreement with the Reparation Commission which would afford Germany, for a few years at least, the possibility of meeting her obligations. This train of thought led me to an idea which, after thorough discussion with leading American bankers, crystallized into a formal proposal. Negotiations should be opened with the Reparation Commission which would, without direct changes in the London Schedule of Payments, create a *modus vivendi* for a few years. The payments under the Schedule of Payments were neither to be remitted nor deferred, but to be so arranged that particular prominence should be given to deliveries in kind, and that the payments in cash still

remaining necessary for the next three or four years could be covered through an international loan. Upon the consent of the Reparation Commission to consider such a plan in principle, an American banking syndicate was to announce its readiness to grant an advance to the German Government—say, 50,000,000 dollars—with which to counteract the sale of German marks abroad, and, after an initial moderate recovery, bring violent fluctuations to an end. This would enable the German Government, by a reasonable handling of its taxes, and by economy in all directions, to put the budget in order and then quietly to carry on further negotiations which would gradually lead to a change in the London Schedule of Payments, which was impossible of fulfilment in its present form. American co-operation seemed to me advisable, although the Reichsbank had at the same time a gold reserve of over one milliard gold marks with which, under the conditions as outlined, it might have been able alone to support the mark for some time to come. For one thing, it was inexpedient to part with gold for the support of the mark if it was at all avoidable, since, given the general pessimism with regard to German currency, the surrender of gold would have been a further stimulant for speculation. Moreover, the credit which the German Reichsbank enjoyed at home and abroad seemed to me no longer strong enough to ensure an immediate success. If, on the other hand, an American banking syndicate, headed for example by J. P. Morgan & Co., publicly stated that it was placing a very substantial advance in dollars at the disposal of the Government of the Reich, for the support of the mark, it appeared to me that the mere announcement of such a powerful syndicate would be sufficient to re-establish confidence and to reverse the course of speculation in marks.

I found much sympathy in America with these ideas, but also many objections. Some representatives of the banking world who were especially familiar with German conditions replied with the argument, accepted as axiomatic almost everywhere in Europe, that the mark could recover or be stabilized only upon a change of the London ultimatum and upon a reduction of the reparation claim to a reasonable total. Until then it was useless to do anything for the recovery of the mark, and Germany would have to be left to her fate. Granted that unspeakable misery would befall Germany—

since, with a steadily declining mark, law and order could not be maintained much longer—granted that there would be strikes, revolts, political upheavals and famine, all of this was inevitable, in fact an excellent means of convincing the Allies, especially France, of the impossibility of enforcing the London ultimatum.

I consistently opposed such a harsh course of treatment. It can easily be prescribed for others but would hardly be tried by the physician himself. Germany, I protested, had suffered enough misery during and after the war, and the thought that we should again be thrown into even more terrible suffering was unbearable to me as long as there remained the least hope of rescuing us from the difficulties caused by the decline of the mark.

A second objection which I met frequently was this. As long as the German Government continued to pour out milliards of notes it was impossible to help the course of the mark; the activity of the German printing presses was automatically depressing the price of the mark. Stop the printing of notes and balance the budget and the mark will recover by itself.

It was hard to find an answer to this sage advice, which had been constantly pressed into service by the Reparation Commission. An unbelieving shake of the head met my explanations that the fall of the mark, which had set in with such calamitous violence, was accelerated more and more by the general pressure to sell; that the continued decline of the mark brought about a corresponding increase in wages and prices; that in consequence the expenditure of the Reich was continually mounting while an increase in the revenue lagged behind; and that therefore the Reich, having no other source of credit, was compelled to cover its requirements by calling on the Reichsbank—*i.e.* by an increase in the note issue.

There are even to-day many intelligent people who cannot understand that the decline of the mark at that critical period was not the result but the cause of the increased note circulation.

During the months of October and November 1921 I spared no pains in New York to create sentiment for the support of the mark, together with a temporary adjustment of reparation. I had to do this on my own responsibility; I received no aid from Germany notwithstanding the full reports sent by me to Berlin, since the Government there was following different lines, and was busily

engaged with the industrial loan of 1 milliard gold marks previously referred to. At the outset I did not believe that it would materialize, but had it succeeded its success would have been disastrous. The amount of 1 milliard gold marks would have been barely sufficient to fulfil the London Schedule of Payments until the spring of 1922. The loan would have been a heavy burden for the whole of German industry, whilst in the adjustment of reparations it would have been of no help. The Reparation Commission would have pocketed the money obtained with so much trouble, and at the end of six months would again have come before the German Government with the unaltered demands of the London ultimatum. German industry would thus have sacrificed its entire credit abroad to no avail, and the economic and financial misery of Germany would have become all the greater. What concerned me was the conclusion of an agreement with the Reparation Commission which would create, for some years at least, a period of rest and the time necessary to regulate German economic affairs and to prepare a final settlement of reparation.

The idea of a moratorium itself—that is, a mere postponement of German payments—was wrong. I always held that Germany would have to offer something to the Allies in return for a change in the terms of payment. But what could we offer when the continued decline of the mark carried us deeper and deeper into economic distress and political unrest? It could not be too insistently urged that the hope that in the course of time German misery would yet arouse the sympathy of former enemies was groundless. This distress was attributed nearly everywhere outside Germany to Germany's own fault. We were credited with sufficient energy not only to rise above our difficulties but also to contribute materially to the economic advancement of the Allied countries. We could not gain a single step simply by appealing to the Reparation Commission on account of our misery; we had to offer something substantial—that is, money—besides deliveries in kind.

France, of all the Allies, was most hostile to a moratorium under which Germany would have to pay little or nothing. She had suffered the heaviest losses and the decisive battles of the World War had been fought on her soil; the devastation caused by the war in the countryside was frightful. France herself had vigorously taken

up the work of reconstruction immediately after the Armistice, and had, out of her own means, within a few years, almost entirely obliterated visible damage, apart from that suffered by factories and dwellings. She had restored and materially improved the destroyed railways and highways and brought the devastated fields almost entirely back under the plough. The immense outlay of many milliards of gold francs was financed through internal loans—mainly through the short-term "Bons de la Défense Nationale"—and thus without recourse to the printing press. But if France did not soon succeed in receiving considerable amounts for reparation from Germany she was bound to remain for many years with a heavy debt burden and a disordered budget. She therefore had a vital interest in a speedy beginning of reparation payments, of which she had to receive as much as 52 per cent. as her own share. As we have seen, in consequence of the enormous costs of the occupation armies nothing was left for reparation out of all the payments and deliveries made by Germany before 1st May 1921. Even out of the milliard gold marks which Germany had paid in the summer of 1921 France obtained only 140,000,000 gold marks, while 500,000,000 gold marks were paid to England for cost of occupation up to 1st May 1921—not yet reimbursed—and the balance to Belgium. The Belgian priority, which has already been mentioned, was originally fixed at 2 milliard gold marks, and by German payments, up to the end of 1921, it was reduced to about 1 milliard. France continued to receive nothing but deliveries in kind, mostly coal, worth, it is true, several hundred million gold marks a year. No possible change, therefore, in the London Schedule of Payments could meet with the approval of France, unless it increased the deliveries in kind to France and in addition promised her an early and substantial cash payment. A simple moratorium for Germany, without corresponding compensation to France, was a political and psychological chimera. To demand or advocate a moratorium was to chase a phantom which always eluded the grasp. Thus even those people in England and America who constantly declared that the final solution of the reparation question must be awaited before anything could be done for the economic rehabilitation of Europe were in error. These were ideals which it was easy to advocate for those whose own economic conditions provided a safe

anchorage, but which must remain unrealizable. The pressure exercised by the existing balance of power was clearly in the direction of a provisional understanding with France which would gradually prepare the ground for a final solution of the reparation question.

I was confirmed in these ideas by discussions with French financiers, who called on me of their own accord in New York and Washington, at the end of November 1921, taking advantage of the opportunity offered by the International Disarmament Conference at Washington, in which the French Premier, M. Briand, participated with a staff of experts. These French gentlemen thoroughly recognized the paramount importance of stabilizing the mark, not only for Germany but also for France, and they therefore welcomed every expedient likely permanently to relieve the mark exchange of violent oscillations. Out of our discussions originated the idea of working for a settlement of reparation covering some four years. In view of the low gold value of German exports prevailing at the time, the payments under the London Schedule of Payments were to be estimated at a comparatively low figure and to be fixed at a definite total of about 10 milliard gold marks for the entire four years. Of this, in accordance with the Wiesbaden Agreement, the major portion was to be covered by deliveries in kind, and the balance, of a present value of about three to four milliard gold marks, by an international German loan. During the four years' respite the London Schedule of Payments itself was to be revised and brought into harmony with the economic necessities of the Powers interested. Such, roughly, was the programme to be discussed with the Reparation Commission. In the meantime, however, steps were to be taken, with the assistance of an American banking syndicate, for a vigorous support of the mark. The American bankers were to lend their assistance on the following conditions:

(1) the Reparation Commission should grant absolute priority to the American advances for the support of the mark over cash payments required for reparation;

(2) the Reparation Commission should postpone the date of maturity of further cash payments until 1st May 1922, and up to that time only deliveries in kind should be made;

(3) the Reparation Commission should agree to enter into negotiations with Germany regarding the settlement of reparation for four years on the basis of the terms outlined above.

The French, with whom I was negotiating, declared emphatically that there was no hope at all in starting at the other end—that is, with the introduction of changes into the London ultimatum, for which public opinion in France was not nearly ripe. But they also rejected the idea of doing nothing to support the mark, and of letting matters take their course in order that public opinion might be taught by general misery. They characterized this as an irresponsible "catastrophe policy" which should be vigorously opposed. They undertook to approach the firm of J. P. Morgan & Co. with respect to the advance and to get into touch with the Reparation Commission regarding the entire plan.

In the meantime matters in Europe had taken another direction. As a result of Dr Rathenau's negotiations in London, British Government circles were considering a reduction in German cash payments for the year 1922 to a total of 500,000,000 gold marks, the deliveries in kind under the Treaty being continued. This programme figured on the agenda of the Supreme Council which was summoned to meet in Cannes early in January 1922. Upon the mere hope that Germany's reparation burden would be lightened, the mark recovered materially without assistance. Early in December the dollar, which shortly before had been above 300 marks, fell below 200 marks and, with slight fluctuations, it maintained itself at this figure for the time being. Thus the danger of an economic collapse of Germany had temporarily been obviated. But, at the same time, the granting of a moratorium, and this through a decision of the Supreme Council, was now definitely accepted as the aim of reparation negotiations. It was, therefore, no longer possible to negotiate with the Reparation Commission on other lines. We had entered the blind trail of the moratorium; it was soon to terminate in a jungle.

CHAPTER XVI

FROM CANNES TO GENOA (JANUARY TO APRIL 1922)

At the suggestion of Lloyd George, the Supreme Council of the Allies, which assembled at Cannes, invited the German Government to participate in the reparation discussions. A small German delegation, under the leadership of Dr Rathenau, arrived in Cannes on 11th January 1922. Dr Rathenau and myself were immediately asked to a strictly private meeting at the Villa des Broussailles, located near Cannes, where we met M. Loucheur, the French Minister, and Sir Robert Horne. Both impressed upon us the seriousness of the situation. The internal political situation in France was very critical. The French Cabinet, if it made concessions to Germany in the way discussed in London, would expose itself to severe attacks. On the other hand, the sentiment at Cannes was favourable to Germany and the only thing was to take advantage of it at once. It appeared possible to grant us a moratorium of one year. The cash payments for 1922, however, would not be reduced to 500,000,000 but only to 720,000,000 gold marks, and in addition we should be obliged to furnish deliveries in kind to the value of 1,450,000,000 gold marks, of which 950,000,000 were for France. Every delay in accepting was dangerous, for the French Cabinet might fall to-morrow.

Immediately thereafter the Germans were summoned before the Reparation Commission, which had also been called to Cannes by the Supreme Council. There Dr Rathenau dealt with the condition of Germany and her capacity to pay, in a long speech. During this a member of the Reparation Commission passed me a slip of paper with the following words: "Accept quickly; the terms are 720,000,000 gold marks and 1,450,000,000 in deliveries in kind."

Dr Rathenau did not think it wise to act upon these repeated hints. He did not care to enter into any arrangement with the Reparation Commission, which, like himself, was only a guest at Cannes, but wanted to secure the decision of the Supreme Council, still hoping thus to obtain a reduction in the cash payments for 1922 to 500,000,000 gold marks. The next day—12th January—

a crowded meeting of the Supreme Council was held at which Dr Rathenau delivered a speech, wide in its scope, lasting several hours. He described in great detail the German balance of trade and payments and the causes and consequences of the fall of the mark, and thus proved the impossibility of meeting the payments imposed by the London Schedule of Payments. In answer to the objection made by Lloyd George that German industry was working at full speed, creating values—especially through exports, where German competition made itself felt everywhere—in contrast to Britain, America and other countries, where millions of unemployed had to be taken care of by the State, Dr Rathenau endeavoured to prove that the German economy, though fully occupied, was not producing any increase in national revenue or national wealth, because, to a large extent, its work was devoted to healing the wounds inflicted by the Treaty of Versailles and to carrying the burdens imposed on Germany. He considered that in this sense the work of 4,000,000 German workmen must be called unproductive; it was exactly as if these 4,000,000 workmen were not working. In this connexion Dr Rathenau coined the paradoxical expression: "invisible unemployed"—a piece of cleverness which did not have the desired effect on the Conference.

Dr Rathenau was in the midst of his speech when suddenly the news was received that the Briand Cabinet had just been overthrown in Paris. The Supreme Council was thus no longer able to take a decision and the Cannes Conference had to adjourn. In order that the discussion of reparation might not be entirely without result, the Reparation Commission was instructed to pass for its part upon the German application for a moratorium. Thus the Commission, out of whose hands the decision on the moratorium had been taken, very strangely came into its own again. As the Supreme Council was unable to decide it was again compelled to turn to the Reparation Commission. The latter decided, on 13th January, at Cannes, to grant a provisional postponement for the cash payment of amounts due on 15th January and 15th February 1922. During the period of postponement Germany was to pay 31,000,000 gold marks every ten days, commencing 18th January 1922. The German Government, further, was to submit to the Commission within a fortnight a scheme for reforming the budget

and the note circulation, together with a complete programme for the cash payments and deliveries in kind for the year 1922.

The curious figure of 31,000,000 for every ten days corresponded with the amount which, under the instructions of the Committee of Guarantees, was to be deposited every ten days by the German Government in foreign currencies as security for the reparation payments out of the proceeds of the customs receipts pledged for reparation and the 25 per cent. tax on German exports.

Thus the result of the Conference at Cannes, from which so much had been expected by both Great Britain and Germany, was indeed a meagre one. Instead of a broad decision by the Supreme Council, nothing was obtained but an extension of time by the Reparation Commission, unsatisfactory in every respect. It burdened Germany with heavy payments every ten days without giving any assurance of a reasonable settlement for a longer period. Of course, the danger that Germany would again be subjected to sanctions for default in payments was temporarily avoided, but the struggle for a moratorium was only just beginning.

What might have happened if Dr Rathenau had immediately accepted the offer of 720,000,000 gold marks is difficult to say. A quick resolve might have determined the Reparation Commission to take a decision and thus assured results at Cannes which were obtained only after months of untold difficulties and much too late.

After the close of the Conference a Committee of Allied experts met at Cannes to consider the terms of a moratorium for 1922. Its report of 14th January 1922 was transmitted to the German Government confidentially. It adopted the figures already mentioned—namely, cash payments of 720,000,000 gold marks and deliveries in kind to the value of 1,450,000,000 gold marks. The costs of occupation for 1922 were not to exceed the amount of 220,000,000 gold marks and to be met out of German deliveries in kind. As a condition precedent to the moratorium, Germany was to furnish a series of guarantees which in effect amounted to a strict control of German fiscal and financial legislation by the Reparation Commission's Committee of Guarantees, which was to take up residence in Berlin.

In conclusion, the report dealt with the distribution of German

cash payments among the Allies. France was to receive 140,000,000 gold marks for costs of occupation out of the cash payments from 1st May 1921 until the end of 1922. Great Britain had already been granted previously 500,000,000 for the same purpose. The entire balance was to go to Belgium.[1]

In a carefully prepared note of 28th January 1922, in compliance with the request of the Reparation Commission Germany submitted a programme for the reform of the budget and the note circulation, together with guarantees, and a complete programme for the cash payments and deliveries in kind for the year 1922. The note made reference to a comprehensive tax programme ("Steuerkompromiss") that had just been submitted to the Reichstag, and which, through increased direct and indirect taxes, should produce a material increase of revenue. It announced important savings in the budget of the Reich and predicted that the operating revenue of the post office and railroads would cover their operating expenses. A surplus of 16½ milliard paper marks—equal at that time to 300,000,000 gold marks—should be attained to meet the reparation payments. The note further promised to attempt the issue of an internal loan and, independently thereof, the imposition of a forced loan, the proceeds of which were to reach the equivalent of 1 milliard gold marks, and were to be used to check the increase in the floating debt. The Reichsbank, furthermore, was to become entirely independent by the abolition, through special act, of the right of the Chancellor of the Reich to interfere in its business management.

The note emphasized the fact that Germany's balance of payments showed at the moment a deficit of 2 milliard gold marks a year, and that any considerable payment in foreign currency was bound to shake the mark again. This would depreciate the value of all internal revenue, increase all expenses, aggravate inflation, and more and more impair Germany's capacity to make reparation. Notwithstanding these objections, the German Government accepted the Cannes figures for 1922—namely, cash payments of 720,000,000 gold marks and 1,450,000,000 in deliveries in kind. It again declared its readiness to co-operate in the reconstruction

[1] These proposals were adopted by the Interallied Financial Agreement of 8th March 1922.

of the devastated areas with all the energy and resources at its command, and concluded with the following remarks:

"The German Government is of the opinion that the settlement of the German contribution to reparation during 1922 alone constitutes only the first step towards the solution of the reparation problem. The programme for 1922 is based upon a system, the effects of which—as the experiments which have been made demonstrate—are seriously impairing Germany's capacity to make reparation. Payments in foreign currency which have to be made periodically—that is, monthly or quarterly—for reparation purposes, prevent Germany from restoring order to her finances. It would therefore seem that it is to the interest of all the countries concerned to make efforts—while adopting a different basis and making provision for a more extended time-limit—to place Germany in a position to make reparation. It would, moreover, be well to proceed to these measures very speedily, in view of the fact that the uncertainty as to whether Germany will be able, after 1923, to fulfil her obligations, is having a paralysing effect upon the economic and financial situation, not only of Germany but also of the Allied countries.

"It is only on condition that recourse is had to domestic and foreign credit in order to bring to a successful conclusion financial operations on a large scale that Germany will be in a position to fulfil the task of reparation. At present, however, neither the German capitalists nor foreign capitalists desirous of making investments consider Germany worthy of credit. A universal distrust is making itself felt; everyone doubts whether Germany will be able in present circumstances to recover economic weapons sufficient to make her a solvent debtor for a loan contracted on a large scale for reparation purposes. To restore confidence in Germany's solvency to the world at large is essential to a satisfactory solution of the problem."

The German proposal was referred to the Reparation Commission for decision. The Commission took a long time to arrive at a conclusion. After the fall of the Briand Cabinet, Poincaré had assumed the reins of government in France. It soon became apparent that the opposition of the French delegates in the Reparation Commission to a moratorium was increasing steadily. Confidential

inquiries in Paris disclosed the fact that the question of guarantees would be a decisive factor. In this respect the German reply was not considered satisfactory. The proposed forced loan of 1 milliard gold marks received no serious consideration, and in view of the large deficit in the German budget it was not considered sufficient.

When I realized that the moratorium was to be granted only in exchange for far-reaching rights of control by the Allies, I called the attention of the member of the Reparation Commission to the following difficulties. With a full appreciation of political exigencies in the Allied states, care should be taken that the Commission did not perhaps make the mistake of taking back with one hand from Germany—by exacting excessive guarantees—what was to be given to her with the other hand in the way of material relief. The distrust of the Commission was deeply rooted in Germany. If it was not possible to restore confidence in an early return of better times, and if the decision of the Reparation Commission did not breathe a spirit of large-minded conciliation and economic understanding, then it would be impossible to pay even the 720,000,000 gold marks for the year 1922. It surely could not be desired that after a short while Germany should be compelled to come back and report that even the amounts of the reduced payments were not obtainable in the foreign exchange market. And what should then be done? Should the Guarantee Committee itself, perhaps, attempt to carry through in Germany the measures which the Reparation Commission believed would lead to financial recovery? The terms of control, therefore, whatever they might be, would have to be drafted very carefully if they were not to cause immeasurable damage.

From conversations which I had with Seydoux at the time, it appeared that, even among those in France whose economic views were most far-sighted, the moratorium was meeting with opposition on the ground that the suspension of German payments thus proclaimed created a bad impression and opened up the difficult question of guarantees. In this connexion Seydoux again advanced the idea of a provisional plan of reparation up to 1st May 1926, during which time Germany would pay annually 720,000,000 gold marks in cash and make within the London Schedule of Payments such deliveries in kind as might be ordered in Germany by the

several Allied Governments. As shown by past experience, these deliveries in kind, especially those made to France, would be maintained within reasonable limits. This was practically the same plan as I had discussed in America, but on account of the advanced negotiations regarding the moratorium it had not been possible to pursue it further.

In the meantime Germany was paying the 31,000,000 gold marks every ten days, in accordance with the provisional arrangement made at Cannes. The mark continued to decline. A meeting of the Allied Ministers of Finance, held in Paris from 8th to 11th March, still further delayed the decision of the Reparation Commission, and it was not until 21st March that it reached its conclusion. It in fact fixed the cash payments for 1922 at 720,000,000 gold marks, so distributed—after deducting the 282,000,000 gold marks already paid from January to March—over the several months that, from 15th May to 15th October, 50,000,000 gold marks were payable each month, and on 15th November and 15th December, respectively, 60,000,000 gold marks. Deliveries in kind, as foreseen, were required to the value of 1,450,000,000 gold marks, of which 950,000,000 should go to France and 500,000,000 to the other Allies. It was further stipulated that, in the event of a culpable default on the part of Germany in the deliveries in kind, any deficit would have to be paid in cash. Germany was relieved from the payment of the costs of occupation, which were to be covered by the deliveries in kind. The postponement granted was to be only provisional. The Commission reserved the right to examine on 31st May the question whether Germany had satisfied the conditions laid down in its special letter of the same date to the German Chancellor, and thereupon to confirm or cancel the provisional postponement. In the latter event, the amounts provisionally postponed under the London Schedule of Payments were to be met within fourteen days if sanctions were to be avoided.

The special note of the Commission to the German Chancellor characterized the programme of the German Government for balancing the German budget as insufficient. It further declared the plan for the imposition of a forced loan indefinite. The Commission demanded that the entire Treaty charges be progressively and rapidly incorporated in the budget. To the extent that they could

not be covered by current revenues of the Reich, German capital would have to make up the balance either by means of a loan or a direct levy. In addition to the new taxes contained in the "fiscal compromise," Germany should pass legislation, by 31st May 1922, providing for additional taxes of at least 60 milliard paper marks. Of this amount, 40 milliards should be collected by 31st December 1922. It was further requested that the rates of taxation should be increased automatically in proportion either to any further increases in the debt of the Government to the Reichsbank, or the diminution of the internal purchasing power of the mark. The German fiscal legislation to be passed under this programme was to be discussed between the German Government and the Commission's Committee of Guarantees. The Committee was to exercise a far-reaching control over German finances and have the right to make proposals designed to remedy any defects it might detect in the management of the budget.

The entire note was written in a severe tone; there was not a word of recognition of the good will so far manifested by the German Government and its efforts to meet its reparation liabilities. The actual relief granted to Germany was rendered totally valueless by harsh criticism and threats. It was therefore no wonder that the decision of the Reparation Commission had the worst possible reception in Germany.

On 30th March 1922 Dr Wirth made a full report to the Reichstag, in which he attacked the Reparation Commission with great bitterness. The demand for new taxes to the amount of 60 milliard paper marks he rejected as an absolutely impossible burden: the Reparation Commission had, by making it, proved to the whole world that no economic representations by the German Government, however serious and conscientious, made any impression on the Commission. Regarding the question of control, the Chancellor declared: "Against that principle I must here and now, in the name of the Government of the Reich, register the most emphatic protest; it is incompatible with the right of self-determination of a people and with the honour of a great nation to impose upon it foreign agencies for the supervision of the individual branches of particular spheres of civil administration. We have already gone through such sad experiences with Control

Commissions that no one here would understand it if this system, prolific of chicanery, expensive and wholly unproductive, were to be extended to the German civil administration."

Dr Rathenau, who had drafted the speech delivered by the Chancellor, emphasized it by his own remarks. He attributed the sudden change in the international situation to the coming into power of Poincaré, who had taken up the fight with England on the entire political front with great success. With regard to Germany the forward march of French policy manifested itself in a downpour of notes which had been showered on Germany by the Inter-allied Military Commissions. He had a check made which showed that in the course of two months he had received one hundred notes from these commissions for reply. The paralysing effect upon the authorities who had to spend days and nights in preparing answers to these documents could readily be imagined. There was something pathetic in the fact that France, the foremost military power in the world at the time, was actuated in all its doings and dealings by fear of a German attack—of an attack from a country totally disarmed, with hardly enough soldiers to maintain internal order.

It was a foregone conclusion that the German Government would gain the enthusiastic applause of the majority of the Reichstag for these speeches. But it was equally clear that the German Government had thereby publicly adopted an attitude of sharp opposition to the Reparation Commission. The two advocates of the policy of fulfilment—Rathenau and Wirth—had openly declared war against the Reparation Commission. What is the explanation for this change? One reason had already been mentioned by Dr Rathenau in his speech—that is, the continuous irritation and growing bitterness of the German Government caused by the Allied Military Commissions in Germany. Shortly before, Dr Rosen, the predecessor of Dr Rathenau as Minister of Foreign Affairs, had collapsed under the daily friction with the head of the Control Commission in Berlin. When a Minister had to sacrifice a large part of his time every day to settling vexations caused by an unfriendly foreign military authority for the sole purpose of justifying its existence, he must soon become physically and mentally unfit for international economic problems such as reparation. The irritating effect of intercourse with the foreign military commissions

also told on Dr Rathenau. It deprived him of his former freshness and objectivity in the handling of reparations. There probably also entered into his mood a feeling of resentment at the unfavourable criticism passed on his attitude at Cannes.

Wirth and Rathenau—like former German Governments—believed that it was not necessary to set much store by the Reparation Commission when an occasion presented itself to deal directly with the heads of the Allied Governments. After his visit to London, in December 1921, Dr Rathenau was unable to rid himself of this misconception of the practical and juridical position. In March 1922 he again thought that he would shortly have an opportunity of settling the question of the moratorium in personal intercourse with Lloyd George at the coming Conference at Genoa.

The Reparation Commission was quite dismayed at the impression its note had produced in Berlin. It had been hoped in Paris that the German Government would appreciate the difficulty of the situation, and treat the note accordingly. The British and Belgian representatives in the Commission had succeeded, only after a sharp contest with the French, in carrying through the figures of Cannes. In order to obtain practical concessions from the French it had been necessary to adopt a severe tone in the note itself, and this had been aggravated by French co-operation in the drafting of the note.

After the storm of indignation in Germany the situation had become dangerous. It was all-important that the German Government should not break down the bridge to an understanding by a sharp reply. I was again sent to Paris, and, after consulting several members of the Reparation Commission, I suggested to the German Government that it should make the following declaration: "Germany understands that the demand for additional taxes is made with a view to balancing the budget for 1922. The result desired by the Commission will certainly be obtained through the forced loan. In addition, the Government expects a considerable increase in the receipts from existing taxes. It will endeavour to create new taxes, but in view of all the circumstances it believes it will be extremely difficult, if not impossible, to raise a specific amount by 31st May. Germany will, further, do her utmost to finance any deficits in the budget through voluntary loans. To this

end, however, an improvement in the value of the mark and a return of confidence are essential. Both are best obtainable through the issue of an international loan."

I recommended Berlin to draft the reply regarding control with extreme caution, as the relevant demands in the note of 21st March, upon closer inspection, proved to be more or less empty phrases and no really effective control of revenue and expenditure was demanded. Above all, Germany should declare her readiness to enter into immediate discussion regarding all points raised in the Reparation Note.

Although my recommendation was supported by the German ambassador, the German reply of 7th April was entirely different. It dealt exhaustively with the further decline of the mark under the influence of the last note of the Reparation Commission, and the consequent rise in prices in Germany, suggested a further investigation of conditions and a comparison of the tax burdens in Germany and in the Allied countries, and referred to the necessity of an international loan for reparation and the stabilization of the mark; but it rejected in most positive terms the demand of the Commission for the introduction of new taxes and any system of control which was not compatible with German financial sovereignty, or which would establish foreign influence over the details of legislation.

The German reply was delivered in Paris on the day of the opening of the Genoa Conference.

CHAPTER XVII

THE TREATY OF RAPALLO AND REPARATION

At the Conference at Cannes, in the early part of January 1922, the Supreme Council of the Allies, on the proposal of England, had decided to call an International Conference at Genoa for a comprehensive discussion of economic and financial questions. Invitations were sent to all European states—including Germany, Austria Hungary, Bulgaria and Russia—in order that effective steps might at last be taken toward the reconstruction of Central and Eastern Europe. At the instance of the French Government, discussion of the reparation problem was officially barred from the programme of the Conference. Poincaré made this the condition of French participation. In a note dated 15th February he recited the various objections of the French Government to the agenda of the Conference, and at a meeting with Lloyd George at Boulogne obtained England's assurance that no decision regarding reparation would be taken at Genoa. It was clear to everyone that it would be useless to discuss the economic condition of Europe without touching upon its connexion with reparation and international debts. None the less, Lloyd George accepted the conditions imposed by Poincaré —perhaps in the hope that the pressure of economic necessities would prove stronger than political prejudice, and that unconstrained intercourse between representatives of the Allied and German Governments during the Conference would in the end conduce to the solution of the reparation problem.

While practically all other countries were represented at the Conference by their Prime Ministers, Poincaré ostentatiously sent Barthou to Genoa to take his place. From the German Government, in addition to the Chancellor, Dr Wirth, the Foreign Minister, Dr Rathenau, the Minister of Finance, Herr Hermes, and the Minister of Economics, Herr Schmidt, went to Genoa. The Conference opened on 10th April 1922, and at first all went well. German representatives were appointed on all committees. Their statements, especially in the sphere of finance and economics, always received serious consideration. An informal social intercourse with the representatives of the other Powers promptly

developed, and the hope was justified that the Conference at Genoa would bring about a material improvement in international relations. Even the question of reparation, notwithstanding the official prohibition, was privately discussed outside the programme of the Conference. An occasion for this, free from objection, was presented by the fact that, on 4th April 1922, the Reparation Commission had decided to call a committee of experts to consider the conditions under which the German Government might raise foreign loans to be applied to the partial redemption of the capital of the reparation debt. The Committee was to consider:

(1) the terms under which such loans could be raised and the amounts likely to be obtained in the near future, and in particular the course of each of the next two years;

(2) the security which could be made available for potential lenders without undue prejudice to the future interest of reparation;

(3) the manner in which the revenues and other assets assigned to the service of the loans should be controlled and administered, and the relations to be established as between the German Government, the representatives of the lenders and the Reparation Commission.

M. Delacroix, the first Belgian delegate in the Reparation Commission, assumed the chairmanship of the Committee. D'Amelio, assistant Italian delegate with the Reparation Commission, was vice-chairman. In addition, one English, one French, one American, one German, and one neutral expert were to serve on the committee. Several of the prospective members, among them the chairman, M. Delacroix, attended the Conference at Genoa and took advantage of the occasion quietly to prepare the work of the committee of experts. The following programme was agreed upon.

A general settlement of reparation could not be obtained as long as the question of Interallied debts had to be left in suspense. If, however, conditions were allowed to drift—as was the desire of influential English financial interests—an aggravation of the political and economic situation must result which, in a short time, might lead to a complete collapse of Germany, and possibly of other countries as well. Therefore, a provisional settlement of reparation, say, for four years, should be attempted, under which Germany would have

to pay 720,000,000 gold marks in cash annually, and, in addition, contract with the individual Allied countries for deliveries in kind. The four annuities of 720,000,000 gold marks were to be procured by an international loan, which could be offered partly in Germany and partly in the international markets. The total amount of the loan should be 4 milliard gold marks, in order to provide out of the proceeds for the interest on the loan for the first years; about half-a-milliard of the proceeds were to be used for the stabilization of the mark. German customs receipts were to serve as security for the loan. The Reparation Commission should grant the loan creditors absolute and irrevocable priority over Allied reparation claims. Apart from the above-mentioned payments and deliveries, Germany was to be relieved, for a period of four years, from all other financial obligations under the Treaty of Versailles.

This plan was prepared in all of its details; it was even discussed with and approved by Seydoux and other French experts at Genoa. We were just on the point of submitting the plan to the international bankers who attended the Conference, when the signing of the Treaty of Rapallo destroyed, with one stroke, all this wearisome preparatory work.

It may be well to enter briefly into the history of this event, which attracted much attention at the time and let loose a Press campaign that distorted the actual facts on both sides.

Long before the Conference of Genoa, Germany had been negotiating with Russia for an adjustment of mutual relations. The Peace Treaty concluded between the two countries at Brest-Litowsk in the spring of 1918 was annulled by Article 116 of the Treaty of Versailles, under which the Allies expressly reserved all rights of Russia as against Germany for reparation in accordance with the principles of the Treaty. That provision hung over Germany like the sword of Damocles. It was not possible to re-establish peaceful relations with Russia without first removing the menace involved in the reparation of Russia's war damage. For this reason a treaty was drawn up in the negotiations between Germany and Russia under which the German Reich and the Soviet Republic mutually agreed to waive all compensation for war costs and reparation of war damage. The draft of the treaty further provided for the immediate resumption of diplomatic and consular relations

between the two countries and for the adoption of the principle of "most favoured nation" treatment in their economic relations. This was a very useful and ordinary treaty, free from any stipulations which could result detrimentally to the legitimate rights or interests of third parties. Above all it contained no supplementary agreement of a political or military character, as has continually been falsely asserted in the Press. The Treaty was ready, and could easily have been signed several weeks prior to the Conference at Genoa, but through some diplomatic red tape its conclusion was delayed. The discussion regarding the signing of the Treaty was resumed at Genoa by the political representatives of Germany and Russia.

In the meantime the Allied experts, prior to the Conference at Genoa, had prepared a memorandum in London which contained proposals for the regulation of international relations with Russia, which did not, however, take into consideration Article 116 of the Treaty of Versailles. This, naturally, aroused suspicion on the German side, which was increased by the fact that the sub-commission of the Conference dealing with Russian questions decided for tactical reasons that the Allies should first meet the Russian delegates alone, without calling in the German delegates. Lloyd George evidently believed that he could more readily overcome the difficulties of diplomatic intercourse with the Soviet people —who were unknown to him—and with the German representatives by first dealing with each separately, and he overlooked the possibility of Germany's suspecting a trap in this procedure. In fact, serious apprehension was felt among the German delegation lest in this preliminary discussion between the Allies and the Russians the London memorandum of the Allied experts might be adopted as it was, and lest in that event the adjustment of the special relations between Germany and Russia might no longer be possible in the manner agreed upon. It is said that Dr Rathenau made several unsuccessful attempts to see Lloyd George in order to call his attention to the danger involved in the exclusion of Germany from the discussions with the Russians. It is further asserted, on the German side, that several of the Allied "liaison officers" had been warned that Germany would be compelled to conclude a separate agreement with Russia unless permitted in time to participate in the discussions of Russian questions. Be that as it may, a definite rumour suddenly

reached the German delegation that the Allies were about to conclude negotiations with Russia without considering Germany's wishes with respect to the elimination of Article 116 of the Treaty of Versailles and its dangers. This convinced Dr Wirth that he was compelled to avail himself immediately of Russia's readiness to sign the Treaty with Germany.

That Dr Rathenau was the moving spirit in the conclusion of the Treaty of Rapallo is a myth. On the contrary, he entertained serious doubts and was only induced to conclude the Treaty with Russia when he realized that Dr Wirth would, if necessary, sign it without him. Afterwards, it is true, he consistently assumed the full responsibility for the Treaty. On Easter Sunday, 1922, while the whole Conference kept holiday, he went to Rapallo to meet the Russians, and returned to Genoa in the evening with the Treaty duly signed. The announcement of its conclusion had the effect in Genoa of a thunderbolt out of a clear sky. No one, except those who actually experienced it, can conceive the excitement and animosity which was created among the participants at the Conference. No one appeared to understand the action of the Germans. The Italians especially felt, but the neutrals also had to admit with sincere regret, that the spirit of the Conference had been completely spoiled by the Treaty of Rapallo. The sympathy so far created by the attitude of the Germans at Genoa was reversed at a blow. Universal indignation prevailed because Germany, prompted by baseless suspicions regarding the intentions of the Conference, should have selfishly safeguarded her own interests with Russia behind the backs of all the other delegations, and thus annihilated the common labours of the Conference. Those who were well disposed towards Germany regretted that the French had so miraculously escaped the isolation into which they had been driven by the narrow policy of Poincaré; they could now claim, with a certain degree of justification, that their deep distrust of Germany's honesty as a negotiator proved only too well founded by the consummation of the Rapallo Treaty.

Among the members of the German delegation—most of whom were as much surprised by the signing of the Treaty of Rapallo as the outside world—opinion was divided. Many believed that the political advantages which might possibly result in the future from

the treaty with Russia were far from outweighing the injury done by it to Germany's good name and to the prospect of an early settlement of reparation.

In a note of 18th April, signed by all the Allied representatives, Germany was accused in scathing terms of disloyalty for entering into a secret compact with Russia dealing with precisely those questions which Germany had agreed to treat in loyal co-operation with the representatives of the other countries. Germany was excluded up to the close of the Conference from discussion of an agreement with Russia. A counter-declaration of the German Government which was intended to be explanatory and conciliatory was without effect. The social treatment of the German representatives in Genoa corresponded to the disciplinary measures which had been taken in the political sphere. Wherever possible, at social functions and on other occasions, they were cut—even by the neutrals. The situation improved somewhat with time, but the bitter feeling of ostracism remained until the close.

Thereafter the Conference of Genoa was only kept alive by work of purely formal and academic importance. Any prospect of the Conference's real success in political or economic questions had vanished with Rapallo. Instead of cheerful co-operation, a bitter feeling of distrust ruled in the field of the Conference's activities. Even the brilliant closing address of Dr Rathenau did not improve the situation. The loud applause which greeted his remarks was a tribute to his oratory and not to the policy of the country which he represented.

After Rapallo, reparation could not be discussed with anyone in Genoa: Seydoux, in whose hotel room we had until then fully discussed from day to day the plan of reparation outlined above, sent me word that, much to his personal regret, he could no longer receive me.

Meanwhile, at home, Germany was celebrating the valiant work done at Rapallo, and the decision taken at last by the German Government to pursue an active foreign policy. We are still awaiting the fruits of the Treaty of Rapallo.

CHAPTER XVIII

THE LOAN COMMITTEE OF THE REPARATION COMMISSION

The relations of the German Government with the Reparation Commission had in the meantime become aggravated, though personal influence with the members of the Commission was instrumental in obviating an open rupture. A note from the Commission on 13th April indicated by the unusual mildness of its tone that the Commission was seeking the way to an understanding. It pointed out that compliance with the conditions of the moratorium was necessary in Germany's interest, especially in preparation for a loan, and that there was no intention to encroach upon the sovereignty of Germany. The Commission was ready to consider any practical proposal which the German Government had to present. A further brief exchange of notes, however, led to new misunderstandings, with the result that at the beginning of May the situation was again critical. It once more became necessary to have recourse to the mediating influence of personal relations. The German Government had recently relapsed into the old mistake of dealing with the Reparation Commission by correspondence. If any chance remained of removing the existing tension, it was only through a personal discussion with a responsible German representative. It was therefore suggested at Genoa that the German Minister of Finance, Dr Hermes, who, by his attitude at the Conference of Genoa, had earned the good will of everyone, should proceed to Paris to adjust matters in personal discussions with the individual members of the Reparation Commission. At about the same time the meetings of the International Loan Committee were to begin, and their success depended on settling the German dispute with the Reparation Commission.

By quiet and unremitting work in Paris I had to prepare the way for peace with the Commission. On 9th May 1922 the German Government issued a statement that had been agreed upon between members of the Commission and myself. Practically the German standpoint was unchanged, but the note contained a desire to do justice, as far as possible, to the views of the Commission. Dr

Hermes was able to come to Paris on 13th May, and found that the gulf caused by the previous exchange of notes would be hard to bridge. The Commission felt that the German Government had intended nothing less than a challenge; while the visit of Dr Hermes corrected this impression, there still remained the task of reconciling two parties who obstinately embraced contradictory theories. Finally, after ten laborious days, the necessary formula was found. Germany was to acknowledge in principle the Commission's demands of 21st March 1922, but state at the same time that some of them were at present impossible of fulfilment. In this connexion the German Government was for the first time to undertake to restrict the increase in the floating debt. Just this point, which should have been a matter of course, occasioned the most serious objections on the German side. The view obtained in Berlin that it was impossible to prevent the increase in the floating debt until the question of reparation had been properly solved. At the suggestion of the British delegate, Sir John Bradbury, this obligation was finally so modified as to be binding only in the event of Germany's being able to obtain reasonable assistance by way of a foreign loan. On this understanding, the German Government was to undertake not to increase the floating debt above the amount at which it stood on 31st March 1922, and to wipe out any increase within three months—if necessary by means of new taxation. Amounts paid in execution of the Treaty of Versailles were not to be taken into account in computing an increase in the floating debt, and were to be covered by the expected foreign loan.

The Government at Berlin, suspecting a trap, fought against the formula thus agreed upon in Paris with tooth and claw. Finally it demanded an additional clause to the effect that, in case of *force majeure*, the whole agreement should become null and void. This addition was rejected, partly because it went without saying, but also because the Commission feared that it might serve as a loop-hole to escape from the obligation. This shows to what extent mutual distrust had grown.

The right of supervision was so defined that it was not to encroach upon the sovereignty of the German Government, nor disturb the work of administration, nor violate fiscal secrecy. The laws against the flight of capital were to be extended in consultation

with the Committee of Guarantees, and capital exported from Germany was to be induced to return by means of a foreign or internal loan. The Reichsbank in the meantime had become completely independent by the Act of 25th May 1922. Commercial statistics were to be resumed on the same basis as before the war.

On his return to Berlin, Dr Hermes prevailed on the Cabinet to address to the Reparation Commission, in a note dated 28th May 1922, the statement required by it. In arriving at this decision the Cabinet was, above all, influenced by a declaration of the Loan Committee of the Reparation Commission to the effect that it was unable to continue its labours unless an understanding was reached between the German Government and the Commission. As an annex to the note of 28th May a tentative budget was submitted. It showed a surplus of total revenue over the Reich's internal expenditure of about 70 milliard paper marks—at that time one milliard gold marks—which was to be applied to meeting liabilities under the Treaty of Versailles. In a subsequent note from the Chancellor, dated 30th May 1922, the Commission was informed that, in lieu of the 60 milliards of new taxes demanded by the Commission, a compulsory loan for the same amount would be levied—40 milliards of which were to be collected in the course of the year 1922. The draft of the necessary law was already before the Reichstag.

The Commission replied on 31st May 1922. It admitted that, by the action already taken and the further measures contemplated, the German Government was making serious efforts to meet the requirements of the Commission, and now confirmed without further conditions the partial postponement of payments for 1922 which had been contemplated by the decision of 21st March. The Commission, however, reserved the right to cancel the postponement at any time, and to restore the London Schedule of Payments, if Germany failed to meet her undertakings. Several questions left open were to be settled by a subsequent note from the Commission to the Chancellor.

Thus the dispute, lasting several months, between the Reparation Commission and the German Government was settled to the extent necessary. Neither side could feel really satisfied with the result: the rent was patched, but still plainly visible. The short

respite for Germany was rendered precarious by the possibility of cancellation.

The further note announced by the Reparation Commission was sent on 14th June 1922. It dealt with some details, particularly the independence of the Reichsbank, but brought no surprises.

The Loan Committee of the Reparation Commission met in Paris on 24th May 1922, under the chairmanship of Delacroix. The members were: J. Pierpont Morgan (United States), Sir Robert Kindersley (England), Sergent (France), D'Amelio (Italy), Delacroix (Belgium), Vissering (Holland), and myself. The deliberations started with a general discussion of the possibility of an international reparation loan. As to the necessity of such a loan for the restoration of the finances of Germany, and of all Europe, all members were agreed. It was also generally agreed that the disposition of the investment markets was favourable for the floating of a reparation loan. Morgan, however, laid stress on the fact that the American market at present was averse from taking up European securities, public opinion in America being disgusted with the confusion of international politics and tired of Europe. But this atmosphere of unfriendly indifference could easily be overcome, subject to two conditions. Firstly, America had to be convinced that the loan was desired by the Allies and that it would benefit them. This could best be demonstrated by the active co-operation of Allied and neutral banking interests in the issue of the loan. Secondly, Germany would have to show, by the guarantees offered for the loan, and by the rehabilitation of her internal finances, that she was assuming the obligations of the loan for the purpose of re-establishing her international credit. When once these preliminary conditions had been met, the reparation loan would be a success even in America.

This declaration made it clear that an international loan for Germany could not be arranged unless the negotiations between the German Government and the Reparation Commission were first brought to a satisfactory conclusion. This was accomplished by the exchange of the notes of 28th and 31st May 1922. The Committee could now settle down to its real work. The first days were passed in obtaining accurate information regarding the financial and economic condition of Germany, and in considering

the various possible forms of an international loan. During these days the cool reserve at first displayed toward the German representative was gradually dissipated. For even in the Committee the Treaty of Rapallo showed its evil effect; drawn into the debate by the French member to justify the French distrust of the German method of negotiation, the unfortunate Treaty was also referred to in conversation with me by Morgan and Kindersley. Both declared that they would have declined to join the Loan Committee if the Treaty of Rapallo had been in existence at the time of their invitation. It was not easy for me to overcome the unfavourable atmosphere in which the Committee worked.

But now another difficulty arose. Apart from the French member, the Committee held that there were no prospects for a loan unless the question of reparation could be settled for a number of years. It was not simply a question of mechanically meeting, by means of a loan, a part of the German obligation, within the requirements of the Treaty of Versailles and the London Schedule of Payments; it was necessary also to ascertain what reparation burden Germany and the subscribers to the loan considered Germany able to bear. The issue of a reparation loan was impossible without the rehabilitation of German credit at home and abroad. The work of the Committee would serve no practical end unless the question of the loan could be considered in connexion with a thorough study of the entire reparation problem.

The French member declared, at meetings, and outside them, that he did not feel authorized to take part in any discussion of the question of reparation. He based his attitude on the French text of the resolution of the Reparation Commission, of 4th April 1922, which provided that the Committee should study the conditions under which Germany—regard being had to the obligations imposed by the Treaty of Versailles and the Schedule of Payments of 5th May 1921—might obtain foreign loans for the purpose of reparation. From this he concluded, evidently under instructions from Poincaré, that the fixed German reparation debt could not be disturbed, and that the plans of the Committee for a loan would have to be strictly within the limits of the Treaty. In order to remove all doubt as to the competence of the Committee, Morgan and Kindersley proposed to address an official inquiry to the Reparation Commission.

After a thorough discussion, the Committee, against the vote of the French member, decided to inquire of the Reparation Commission, through its chairman, as to whether in its work it had to consider the reparation debt of Germany under the Treaty as unalterable, or whether it was at liberty to examine the possibility of other solutions. This brought about a conflict between the French Government and the majority of the Committee, and the work of the Committee threatened to split on this rock. I vainly endeavoured to convince the Committee that the inquiry was unnecessary, the Committee only having to render an expert opinion as to the conditions under which a loan seemed possible. The terms of the Treaty of Versailles regarding reparations were so indefinite, and the power of the Reparation Commission to fix the terms of payment so broad, that a revision of the Treaty need not be taken into consideration at all, even though the Committee should come to the conclusion that, if a loan was to be negotiated, Germany's current payment would have to be reduced or postponed. My arguments made an impression, but the majority of the Committee insisted on elucidating the doubt raised by the French member as to its authority. On the following day Poincaré made the following statement before the French Chamber: "*Even in the Reparation Commission itself, or in its neighbourhood, I can at present perceive the most dangerous machinations directed against us, in order to make the international loan contingent on a new reduction of our claims. This very morning, by virtue of my authority as head of the Government, I notified the French delegation on the Reparation Commission that it could not accept this.*"

This gave publicity to the dispute. On 7th June the Commission decided by a majority against the vote of the French delegate that the Loan Committee was at perfect liberty to study in the course of its labours all possible conditions for the issue of German foreign loans. Any suggestions from the Committee would be of great value. The chairman, M. Dubois, explained that, while he was obliged to vote against this resolution, it was his opinion that the Committee was fully authorized to follow the decision of the majority of the Commission in order to be able to continue its labours on a broader basis. At the next meeting of the Loan Committee, Kindersley, in particular, protested sharply against the action of the head of the French Government in publicly criticizing

the work of the Committee. Morgan joined him in declaring that the disagreement between the Allies, which on this occasion had become so glaringly manifest, rendered a profitable continuation of the work of the Committee impossible. The French representative, Sergent, read a carefully worded statement in which he declined to participate in discussions which included a revision of Germany's reparation debt.

Thus the Committee fell asunder before it had actually started its work. The chairman, M. Delacroix, and myself exerted every expedient to prevent the Committee from dissolving without having accomplished anything. I called attention to the fact that a dissolution of the Committee or an adjournment for an indefinite period would have the most serious consequences for Germany, of which the gravest would be another slump in the mark. If the Committee declared that a reparation loan was impossible at present, then the moratorium just obtained would also be endangered, as it had been granted on the assumption that Germany would obtain a foreign loan and would thereby be enabled to prevent an increase in the floating debt and a further decline of the mark. If the prospects of a foreign loan now disappeared, pessimism would again get the upper hand in Germany, and the continued depreciation of the mark would entail the complete insolvency of Germany. The Reparation Commission would again put the London Schedule of Payments into operation and the Allied Governments would resort to sanctions, the effect of which could not be foreseen. Such a result would be the more deplorable, as Germany's condition in other respects was not at all desperate. If hope could be held out that within a year the reparation problem would come nearer a solution, and that a loan was within the range of possibility, then it would be possible to check the general depression and prevent a further fall of the mark. At the present moment no one seriously considered a final settlement of reparation; what had been hoped for was a provisional settlement with the aid of a loan. Even a smaller loan with which to meet the cash payments for a few years would be of the greatest value. Germany was well able to furnish security for such a loan if thereby she could obtain protection from sanctions and a respite for the rehabilitation of her currency and her credit.

All these warnings were vain. The majority of the Committee

interpreted Poincaré's sudden attack as a proof that public opinion in France was not yet ripe for a reasonable treatment of the reparation problem. It was bluntly stated that Poincaré's remarks made it impossible for the Committee to consider any loan whatever, large or small. The deciding factor in this was not so much the remarks themselves as the unfavourable atmosphere which they had created.

There was nothing left but to adjourn the Committee indefinitely. In order to soften the effect of the adjournment it was agreed that the views of the majority of the Committee regarding the possibility of a reparation loan should be set forth in a full report. This document, in which, on 10th June 1922, the Committee reported to the Reparation Commission, is notable for its courage and clearness. Its closing sentences are as follows:

"If the Committee have felt obliged to be discouraging as to the prospects of a loan in the present position of Germany's credit, they desire to be no less emphatic in stating their conviction that, provided the necessary conditions for the revival of her credit can be realized, substantial loans could be successfully floated in all the main markets of the world. Purely financial conditions are now definitely favourable to the issue of such loans, more favourable than at any time since the war. The Committee wish to assure the Commission that it is their earnest desire to do everything in their power to assist in raising such loans if the conditions to which they have referred can be secured. They are deeply conscious of the immense assistance to the economic recovery of the whole world which would be afforded by the gradual conversion of the German obligation from a debt to Governments into a debt to private investors, based, like other public debts, not upon external functions, but upon the general credit of the debtor country. They believe, indeed, that the resumption of normal conditions of trade between countries, and the stabilization of the exchanges, are impossible without the definite settlement of the reparation payments as of other external public debts. If, at any time, therefore, the Commission is able to repeat, by a unanimous decision, the invitation which has been extended by a majority, the Committee will be glad to meet again and resume the inquiry which has now been interrupted. They cannot conjecture whether the Allied Governments would be

able to accept the necessary conditions, but, if so, they repeat that they are hopeful that substantial loans could be raised.

"Finally, the Committee desire to point out that in the meantime, and even during the interval between such a renewed invitation and the conclusion of subsequent negotiations, Germany's financial position may obviously be threatened with serious danger. Protracted negotiations for a large and long-termed loan might mature too late if not preceded by immediate help. But if the programme were considered anew in the improved circumstances suggested, and with a real prospect of an ultimate settlement, the Committee feel that the obstacles which at present confront an interim loan would probably not prove to be insuperable. With real hope of a definite settlement within a reasonable period it would be much easier to arrange a shorter-term secured loan sufficient to save German credit from collapse during the period of negotiation. The Committee need scarcely add that they would be glad under these conditions to give any assistance in their power in regard to such a limited loan, as well as in regard to the larger and more important problem."

The report was signed by all the members of the Committee with the exception of the French representative. The latter, in a separate statement, placed himself on record as unable to participate in any plan for a loan which contemplated any diminution of French Treaty rights, adding that, in agreement with the French delegate on the Reparation Commission, he was of opinion that it was not within the competence of the Committee of Bankers to study modifications in the Treaty obligations of Germany.

The report made an excellent impression in many German quarters because, in contrast with the decisions of the Reparation Commission and the Allied Governments, the economic standpoint for a solution of the reparation question was for the first time placed in the foreground and the system of political sanctions condemned. But in spite of all the sound reasoning displayed in the report, the fact remained that the opinion of the international bankers regarding reparation had had to yield to political force, and that in view of the rigid attitude of the French Government the Committee had abandoned its efforts as useless.

CHAPTER XIX

THE SECOND APPLICATION FOR A MORATORIUM POLICY OF PRODUCTIVE PLEDGES

A NEW and serious crisis confronted Germany; its approach was announced by a renewed gradual decline of the mark. The hope of a favourable outcome from the negotiations in Paris had been sufficient to keep the price of the dollar in April, May and early June somewhat below 300 marks. Immediately after the adjournment of the Loan Committee the dollar rose above 300 marks. The significance of this was fully appreciated in Berlin, and it was decided to support the mark out of the foreign exchange which the Reichsbank had accumulated in the interval. Dr Rathenau was particularly in favour of the plan. The Reichsbank was entrusted with its execution; through moderate offerings of exchange, especially on the Berlin Bourse, it managed to maintain the quotation of the mark to a certain extent for several days; but, as it hesitated about entering the market with really large amounts, no considerable success was obtainable. The public eagerly took up the foreign exchange offered by the Reichsbank without the slightest fear that the operation of the Reichsbank might result in a decline of the dollar.

While these operations were in progress, Dr Rathenau fell a victim to the bullets of fanatics. The universal horror produced by this dreadful crime had a paralysing effect on the energy of the German Government. By the death of Rathenau the Wirth Cabinet had lost its strongest head. Although Rathenau had taken no personal part in the recent negotiations in Paris, and was painfully affected by the consciousness that since the day of Rapallo he had been pushed on one side, as he thought, in questions of reparation, he nevertheless had done everything to bring about the acceptance in Berlin of the understanding effected in Paris with the Reparation Commission. Thereafter the Wirth Government's steps were vacillating.

In the first week of July the quotation of the dollar reached 500 marks, and the German Government felt that it was not in a position to make further cash payments to the Allies. In a note,

dated 12th July, Germany applied for a complete release from the remaining cash payments provided for 1922, adding that the desperate condition of the German finances also made cash payments for 1923 and 1924 impossible. On the strength of discussions which had taken place in London a short time before, Dr Wirth counted on support for his application from the British Government.

The Reparation Commission deferred action on the German application pending the completion of the work of the Committee of Guarantees in Berlin, where it was then negotiating regarding the settlement of its powers of control. In the meantime payment of the instalment of 50,000,000 gold marks due on 15th July had been demanded and met by Germany. But even after the Committee of Guarantees had arrived at an understanding with the German Government, on 18th July, the Reparation Commission failed to reach a decision on the German application. It was impossible to make the Commission understand that in her efforts to support the mark Germany needed at least a friendly gesture on the part of the Commission. Instead, the Reparation Commission continued to declare that Germany was herself responsible for the further depreciation of her currency through failure to put her budget in order in due time.

To anyone who used his eyes it was already quite evident that there were no prospects of a longer moratorium—much less of a release from reparation payments until the end of 1924. French influence in the Reparation Commission, whose chairman, M. Louis Dubois, stubbornly refused to consider Germany's economic and financial distress, made itself felt more and more. Dubois was strengthened in his attitude by the obstinacy of Poincaré, who now resumed the fight against the moratorium with sharper weapons. The Paris Press was only too ready to follow his cue by malicious attacks on Germany. Withal Poincaré had no practical plan of his own. He cloaked himself from everyone in the deepest secrecy, and in public acted the strong man with some adroitness. All Britain's well-meaning efforts recoiled against his stubbornness. Lloyd George could not and would not take the risk of a conflict with Poincaré, the more so in that at the time French foreign policy, especially in the Near East, was scoring undeniable successes over Britain.

SECOND APPLICATION FOR A MORATORIUM

Once more an attempt was made to take the decision on the German application out of the hands of the Reparation Commission, and to find a way out by direct discussions between the heads of the Allied Governments. For this purpose Lloyd George called a Conference of the Allies for 7th August in London. The French Government had made extensive preparation for the meeting with feverish haste. From now onward Poincaré adopted the standpoint that Germany should not be granted any deferment of her payments unless she furnished further productive pledges to the Allies in addition to the guarantees previously demanded. The main object of this " policy of productive pledges " was the direct seizure by the Allies of the Government coal mines in the Ruhr District and of the national forests in the Rhine Province, and the direct collection of customs receipts in the occupied territory, which was to be separated by a special customs line from the rest of Germany.

This programme, so obstinately defended by Poincaré, has an interesting history. It was not the product of Poincaré's brain, but originated with Seydoux, who recognized that to secure reparation it was essential, first of all, to bring order into the German finances and to stabilize the mark. Since in his opinion the German Government was not attacking this task with sufficient earnestness, he devised a plan whereby Germany would be committed, by the pledge of valuable revenues, to a thorough reform of her finances and currency. In return she was to have a respite in her payments for a suitable period in which to carry through the reforms. In the meantime the Allies were to keep a firm hold on the pledges. Seydoux believed that he could secure British consent to this policy, since the British had continually and emphatically insisted on the necessity for a sound financial administration in Germany. The plan was submitted to Poincaré and obtained his approval, but another adviser of Poincaré in the French Ministry of Finance raised strong objections. He argued that Germany needed no moratorium to put her finances and currency in order. With a sincere effort she could do this by her own strength and at the same time make payments. Poincaré was accompanied to London not by Seydoux but by his adviser from the Ministry of Finance. Seydoux's plan was stripped of its most important feature —viz. Germany's financial rehabilitation and the moratorium—and

only the productive pledges remained. These latter were to be used to enforce the continuance of reparation payments by Germany. The four-legged horse had been turned into a horse having only two legs, and, naturally, it could not run. Poincaré's programme was rejected at the London Conference as economically impracticable by the experts of the other Allied countries. An English counter-proposal, of 12th August 1922, provided for a complete respite from all cash payments until the end of 1922. It did not demand additional guarantees from Germany in return, but only asked her to carry out conscientiously the measures already required by the Reparation Commission. It suggested supervision over Government coal mines and forests only in case Germany did not meet her obligations in regard to the delivery of timber and coal. This proposal found no favour with Poincaré.

The English Government continued its effort to find a solution, but when I positively declared in a confidential discussion in London, under instructions from the German Government, that under no circumstances would Germany permit the Allies to interfere with the State administration of the mines and forests, all further efforts towards an agreement with Poincaré were abandoned as hopeless. The Conference at London was adjourned on 14th August, without any results.

Once more it rested with the Reparation Commission to take up the game. A precious month had been wasted in barren discussion between the Allied leaders. In the interval the dollar had risen from 500 to 1000 marks. The Commission continued at an utter loss to settle on any course of action. With the French opposition a moratorium for Germany was out of the question. In some way the fact had to be faced that Germany would be unable to make further cash payments for the balance of the year. The Commission, on 18th August, adopted the desperate expedient of staving off a decision by sending Sir John Bradbury and M. Mauclère, the chairman of the Committee of Guarantees, to Berlin with instructions to obtain from the German Government some " indispensable information." The visit of these two gentlemen was greeted in Berlin with some measure of hope. It was believed that the discussion with them could open a way for the solution of the reparation problem. But upon their arrival they stated that they had no such

instructions, and only wished to try to overcome the difficulties impeding the cash payments of 1922. Both did their very best to make the formula of productive pledges acceptable to Germany and to meet in some way Poincaré's wishes by using the State forests and coal mines, directly or indirectly, as pledges for the delivery of timber and coal. But the German Government stood by its refusal. As an alternative it proposed in effect to guarantee the timber and coal deliveries by placing at the disposal of the Allies an adequate guarantee fund—say, 50,000,000 gold marks, in foreign currencies—to cover any possible deficit in these deliveries. The French representative declined this proposal after receiving instructions from Paris. The German Government then offered to guarantee the deliveries of coal, the most important part of deliveries in kind, by direct contracts, running provisionally until 31st December 1923, between the German coal industry and the Allied consumers, and thus to supplement the obligation of the German Government by a direct liability on the part of the German sellers. As this idea had not been properly digested when the delegates of the Reparation Commission left Berlin, it was arranged to discuss it further with the Reparation Commission.

The Reparation Commission could now no longer postpone its decision on the application for a moratorium. As provided by the Treaty of Versailles, it gave the German Government an opportunity to be heard on its application. Dr Schroeder came to Paris and, in a speech delivered before the Commission on 30th August, drew an impressive picture of the state of affairs in Germany. He showed that, in accordance with the Commission's orders, Germany had restricted her floating debt up to the end of June 1922. From 31st March to 30th June the floating debt had been increased only by 23 billion marks, practically all of which was applied towards the requirements of the Treaty of Versailles. Moreover, the revenue from customs receipts and taxes of all kinds had turned out to be far more satisfactory than could have been anticipated at the May negotiations. Not only was Germany's internal expenditure for that quarter completely covered out of the budget, but there seemed to be ground for anticipating a considerable surplus for reparation for the full calendar year 1922. But all German efforts had been frustrated by *force majeure*—viz. by the disappointment over the

failure of the negotiations of the Loan Committee and the murder of Rathenau. These two events had turned the pessimistic feeling at home and abroad regarding Germany's finances into a panic, which was steadily taking uglier form. The movement of foreign exchange in recent months was of a nature to overthrow any budget and defeat any hope of stemming the rise of the floating debt within any measurable period.

Dr Schroeder proceeded emphatically to repudiate the allegation that either the German Government or German industry had intentionally brought about the depreciation of the mark. He showed that by the fall of the mark German liquid capital had been practically wiped out and that the dividends of German industrial concerns, which were said to be so prosperous, were really negligible —almost without exception much below 1 per cent. on their capital. The drastic fall of the mark was mainly ascribable to the foreign political situation and the dilatory handling of the reparation problem. The cure lay, not in coercion, threats and dictation, but in the re-establishment of confidence and through understanding and co-operation. The seizure of the German State mines and forests would not ensure the payment of reparations, but only hasten the " flight from the mark " and the complete collapse of German finances. The German Government, however, was prepared to offer a special guarantee for deliveries of coal in the form of long-term contracts with the German coal industry.

With conditions what they were, these arguments were of no avail. A motion of Bradbury's to grant the moratorium until the end of 1922 without further conditions, and fix as soon as possible the payments for 1923 and 1924, was lost by three votes against one. The Reparation Commission, on the other hand, did not care flatly to reject the German proposal.

At the last moment Belgium leapt in with a suggestion for a compromise. Under her priority she was to receive for herself alone the balance of the payments for 1922, and she declared herself willing to accept, in lieu of cash, six months' Treasury notes which were to be guaranteed by the Reichsbank. Thereupon, on 31st August, the Reparation Commission passed the following resolution :

" Having regard to the collapse of the German credit and the

German currency, the decision on the application for a moratorium is deferred until the Reparation Commission has completed its plans for the radical reform of German public finance, *for the reduction of the burden of reparation, in so far as may be considered necessary in this connexion*, as well as for the issue of internal and foreign loans, to consolidate Germany's financial situation. In the meantime the Reparation Commission agrees to accept in payment of the instalments falling due up to the end of 1922 German Treasury bills maturing in six months, payable in gold, and guaranteed in such manner as may be agreed between the German Government and the Governments to which the payments have been assigned."

The two Belgian representatives, Delacroix and Bemelmans, brought about an understanding in Berlin on 9th September 1922, on the basis of this resolution. The Reichsbank guaranteed the German Government's six months' Treasury bills covering reparation payments from 15th August to 15th December 1922, to a total of 270,000,000 gold marks.

This was the outcome of the protracted negotiations for a moratorium during the summer of 1922. Germany found herself released from further cash payments for the rest of the year. But those payments were only deferred. They had to be met as the Treasury notes matured from 15th February to 15th June 1923, and to that extent added to the liabilities of the following year. The question of reparation after 1st January 1923 was left entirely unsettled. Only four months remained to the close of the year, and during this time this vital question had to be decided if the temporary respite was to be of any use. All that had been gained for the present was that no foreign exchange was required for reparation payments for a few months to come. But at what price had this advantage been purchased? The German currency had collapsed entirely, owing to the renewed decline of the mark, and the budget was once more disorganized. The further decay of the finances could be arrested only for a very short period by the moratorium which had been obtained for 1922.

CHAPTER XX

PAYMENTS OTHER THAN REPARATION UNDER THE TREATY OF VERSAILLES

While the German Government was negotiating with the Reparation Commission for a postponement of the payments under the London Schedule of Payments, it endeavoured by diplomatic means to obtain a reduction in the payments other than reparation which were due under the Treaty of Versailles.

I have referred to these secondary payments in Chapter II. and must add a few words to describe how this situation was handled till the conclusion of the moratorium in the summer of 1922.

In its complaints regarding secondary obligations, the German Government could rely to some extent on the understanding and support of the Reparation Commission, because payments made on that account by Germany went only to certain Allies direct, to the detriment of all others who did not share in them.

This applied in the first place to the costs of occupation which, by the resolution of the Reparation Commission of 21st March 1922, were set off against deliveries in kind for the year 1922, so that Germany was relieved of special payments on this head. But deliveries of provisions and fodder for the troops of occupation had to continue; to this must be added the requisitions and the cost of constructions and installations for military purposes and the housing of the troops, as well as the expenses of the Rhineland Commission.

The adjustment of private claims and debts of the pre-war period, or the operation of the clearing offices under Art. 296 of the Treaty of Versailles, required as early as 1920 such large payments, especially to Great Britain, that the Reparation Commission, in the common interest of the Allies, endeavoured to spread German payments for the clearing offices over a long period. An agreement of 10th June 1921, between Germany and the states concerned in the clearing operations—Great Britain, France, Belgium, Italy, Greece and Siam—provided that Germany should pay monthly a fixed amount of £2,000,000 sterling. Disagreement, which continued for a long period, arose over the interpretation of the agreement.

In July 1922 Germany declared that payments for the clearing offices must also be postponed. This led to a conflict with Poincaré, and on 17th August the Allies abrogated the entire clearing agreement. Since then Germany has made no payment for account of the clearing offices.

How oppressive this burden was to Germany is illustrated by the following figures: Germany paid in all to the clearing offices the equivalent of 615,000,000 gold marks; of this Britain alone received £23,500,000 sterling. It is estimated that the balance of Germany's obligations under the clearing office system still amounts to approximately 230,000,000 gold marks.

The activity of the Mixed Arbitral Tribunals created by the Treaty of Versailles was followed with particular concern in Germany. If only a small proportion of the claims for damages due to German acts during the war was allowed by these tribunals, there was a danger that, in addition to reparation proper, Germany might be compelled to pay a second time for the indemnification of a large number of individuals. And in most cases these private claims were already included in the claims for reparation filed by the Allied states with the Reparation Commission.

The total claims filed with the Mixed Arbitral Tribunals—a term which does not include the Mixed Claims' Commission for war damages appointed by agreement between the United States and Germany—amounted to 8,500,000,000 gold marks. With the slow procedure of the tribunals it is impossible to foresee the final result. So far no cash payments have been made by Germany on this account, and the danger of double payments is eliminated in the future, as any amounts which Germany may have to pay under decisions of the tribunals are to be defrayed from the payments under the Dawes Plan.

CHAPTER XXI

THE PERIOD OF REPARATION PLANS

In the fall of 1922 the political condition of Europe became steadily worse, and the tension between France and England increased—a state of affairs which frustrated all hope of an early settlement of reparation. Almost every Sunday Poincaré delivered a speech somewhere in France—his "Sunday sermon"—in which with unrelenting hatred he enunciated to all the world the same old message of German guilt and of the single-minded preoccupation of Germany to elude reparation and to cheat suffering France out of the rights guaranteed to her by the Treaty. Particular sensation was created by Poincaré's speech at Bar-le-Duc, on 21st August 1922, which was forged as a reply to Balfour's note of 1st August. Balfour had stated in this note, which has since become famous, that Great Britain would be disposed to renounce her claims against the Allies and her share in German reparation payments in return for a reasonable and general settlement of Interallied debts and reparation. Against this Poincaré delivered a sermon to the effect that the Interallied debts and the German obligation to repair war damages should not be mentioned in the same breath; the debts between the Allies had been contracted in the service of the common cause against Germany, while the German obligation originated out of the crimes of war which must be expiated. Germany had systematically brought about the annihilation of her mark to escape from her obligations. The question of a moratorium could be considered only if new and specific guarantees were offered. France was not going to abandon any of the rights which she had obtained for the reparation of her war damages.

These sermons of Poincaré, continuously and monotonously repeated, clearly showed that under his government France would never be accessible to any reasonable conception of the economic condition of the world. In spite of this, endeavours for the settlement of reparation continued unceasingly. No year produced so many reparation plans as the year 1922. That the 132 milliards of the London Schedule of Payments would have to be abandoned was now recognized in all countries, including France. That necessity

was taken into account even in a French plan which should have been presented to the London Conference in August 1922, but which is alleged to have been withheld on account of the Balfour note. It provided for the payment by Germany of 50 milliard gold marks, mainly through international loans, the balance being set off against Interallied debts.

It came to be a generally accepted theory that 50 milliard gold marks present value was the maximum amount of reparation that could be expected from Germany. Within that limit a great variety of proposals was produced, but they were generally vitiated by the requirement of interest and sinking fund on a definite debt at a time when the shattered state of Germany's finances rendered any estimate of her ability to pay extremely problematical. Moreover, most of those plans linked up the question of reparation with that of Interallied indebtedness, the idea being to solve the problem by a sweeping surrender of American and British claims upon the Allies, and by a corresponding reduction of the German reparation debt. It appeared, however, that there was not the slightest inclination in America to make such a surrender.

Recognizing the fact that no progress could be made along these lines, others tried to find a reasonable solution by a different route. In the summer of 1922 I myself ventured to propose a plan, which was published about that time in *The Manchester Guardian*. It was apparent to me that there was no chance at that moment either of a final settlement of the reparation problem or of a moratorium. I therefore proposed the following temporary solution:

"Germany undertakes to make deliveries in kind—including coal—up to the amount of 1 milliard gold marks per annum. In so far as the Allied countries do not take full advantage of their share in deliveries in kind in any single year, their claim lapses. In addition, Germany pays a certain percentage of her annual gross exports to the Allies, but subject to the understanding that the exports up to 4 billion gold marks are reserved to cover her own import requirements and remain exempt from the levy. On the exports exceeding 4 billion gold marks Germany pays for reparation an amount starting with 10 per cent. and gradually rising to 25 per cent. Furthermore, Germany undertakes to pay interest and sinking fund on any

international loan offered to her on reasonable terms. All payments made for the service of the loan are credited to Germany on account of the total annual payments due by her. The agreement runs for three years provisionally, but serves as a basis for a final solution should it have functioned for two years to the satisfaction of both parties. The payments under this plan cover all German financial obligations under the Treaty of Versailles."

Like many other proposals, the plan did not receive any attention. It possessed the novel feature that it attempted for the first time to grapple with the problem of how Germany was to procure the foreign exchange required for the transfer of large reparation payments. It drew on the only possible source—the excess of exports—and for simplicity's sake it employed as a determining factor the percentage levy on German exports introduced by the London Schedule of Payments. An attempt was made, however, to make this determining factor practical by providing that reparation payments should only commence when the German exports had exceeded a certain minimum indispensable to cover the country's own pressing needs of foreign exchange. The Allies would thus acquire a direct interest in the improvement of German economic affairs, inasmuch as the percentage of their claim on the German exports would increase with the rise of the total exports.

At the end of September 1922 another fall of the mark set in, advancing the price of the dollar in Berlin to more than 9000 marks on 8th November. The struggle for the moratorium continued. Within the Reparation Commission convulsive efforts were made to find a basis which would be approved by the French Government. Sir John Bradbury first proposed that Germany should be relieved from cash payments for 1923 and 1924 without any formal change in the London Schedule of Payments, but should issue, to the extent of the deferred payments, five-year Treasury notes which the Allied Powers were to put in circulation after providing them with their own guarantee. Deliveries in kind were to continue as before and be credited against the German Treasury notes. This would have involved a postponement for five years of the annual cash payments for 1923 and 1924, and during the period of respite Germany was to return to the gold standard. The paper mark was to be redeemed at a price of 4000 marks for the dollar with the aid

of a reserve fund of 500,000,000 gold marks to be furnished by the Reichsbank. The remainder of the Reichsbank's gold, amounting to 500,000,000 gold marks, was to be transferred abroad as security for foreign commercial credits.

This proposal was also not followed up any further. A French counter-proposal for the stabilization of the mark, about which there was much ado at the time, did not see the light of day. The French experts were absolutely smothered by the piles of drafts which continually required fundamental alteration according to the varying behests of Poincaré. Nothing at all came of it; at the time the Reparation Commission members were working without having established harmony among themselves, and, indeed, in actual discord. As nobody knew anything better to do, and as it was necessary to create a public impression that something was being done, it was decided, in sheer embarrassment, that the entire Reparation Commission should this time betake itself to Berlin in a body. It took no plan with it, for it had none. Plenty reasonable proposals had been made, but the power to resolve was lacking. Within the Reparation Commission the suggestion cropped up that another meeting of the Bankers' Committee should be called, especially as J. P. Morgan was still in Europe. The Committee was to undertake at once the formation of an international syndicate which, in co-operation with the German Government, was to take measures for stabilizing the mark. It was even then being suggested that a committee of experts should examine Germany's capacity to pay and also the question of Interallied debts. These ideas had progressed to such a point that they were also taken up with the French Government. Millerand, the President of the Republic, was said to have assented, whilst Poincaré persisted in his attitude of resistance to everything.

The Reparation Commission spent about a week in Berlin early in November. It was generally expected that it would at least make some signs which might be of use to the German Government in its desperate straits. But in Berlin, Barthou, the chairman of the Commission, turned the tables by summoning the German Government to make a proposal of its own for stabilizing the currency and balancing the budget, and by confining himself to criticism.

It so happened that just at that time the German Government

had, of its own accord, invited a number of international experts in the field of currency reform to Berlin, in order to get the benefit of their advice on the possibility of stabilizing the mark. At first it looked as though this independent step by the German Government would react unfavourably on the temper of the Reparation Commission, the more so as the experts included men like Keynes and Cassel, who had been severe critics of the reparation policy of the Allies. But it proved possible to avoid all friction and even to turn the work of the financial experts to account in the negotiations with the Reparation Commission. On 4th November 1922 the Government presented the following plan to the Reparation Commission:

"An effective and permanent stabilization of the mark will be possible only after a definite settlement of the reparation problem conforming with Germany's capacity. But action cannot be deferred so long because, with all possible haste, the solution of the reparation problem will require too much time. Any delay involves a further depreciation of the mark and renders financial reform increasingly difficult. All steps should therefore be taken at once that may tend to stop the further collapse of the mark.

"For the support of the mark, the co-operation of German and foreign capital is necessary. For this purpose an international syndicate should be formed to procure for the German Government a bank credit of at least 500,000,000 gold marks, the Reichsbank to participate in the syndicate.

"As the discussion regarding the arrangement of such a bank credit and its terms will touch upon conditions which come within the province of the Reparation Commission, the German Government at present would prefer not to make any definite proposal. It believes that suitable proposals can best be prepared in a conference of international financial experts and therefore suggests that the Reparation Commission call such a committee without delay to consider the possibility and the terms under which international bank credits for the purpose of stabilizing the mark could be obtained. When through such a bank credit the basis for an effective support of the mark shall have been established, then Germany is prepared to (*a*) balance her budget; (*b*) bring about an improvement in her international balance of trade and payments

through economic measures, particularly through increased production; (*c*) limit the floating debt; (*d*) secure internal loans."

This rather timid proposal was elucidated in a further note of 8th November, and supported by the report signed by Messrs Vissering, Dubois and Brand. These experts thought it necessary that, during the operation of the international syndicate, and pending the full repayment of the advances made to Germany by the syndicate, Germany should be temporarily relieved from all cash payments under the Treaty of Versailles, as well as from all deliveries in kind for reparation purposes. The German Government concurred, but was willing to undertake deliveries in kind for the reconstruction of the devastated areas even during the stabilization process, in so far as it was possible to provide for such deliveries out of the budget without increasing the floating debt, or out of the proceeds of internal loans.

The Reparation Commission received the proposal without comment and returned to Paris. It never made any reply to it.

On 14th November 1922 the German Government presented to the Reparation Commission a complementary note. It asked, for the purpose of stabilizing the mark, to be relieved for three or four years from all payments under the Treaty of Versailles, except deliveries in kind to the limited extent mentioned. In return, the German Government declared itself ready to issue internal and foreign loans as soon as an improvement in the value of the mark should have restored confidence in Germany. The entire proceeds from foreign loans and one-half of the proceeds from internal loans were to be applied to reparation even during the period of the desired moratorium. The note further laid down certain general rules for the balancing of the budget, and concluded with the request that the Reparation Commission should do everything to expedite the definite determination of the German debt, and should call a conference of international financiers to consider the proposed measures of support. Attached to the note were the reports of the international experts on the stabilization of the mark. The experts all agreed that Germany would have to be released from all payments under the Treaty of Versailles for several years. The group consisting of Brand, Cassel, Jenks and Keynes, however, emphatically expressed the opinion that the stabilization of the mark would

have to be started through Germany's own efforts, by the use of her own resources, and by the determined action of her Government, and that to make outside help the basis of the plan was to reverse the proper process. Certain technical conditions for the success of the stabilization were already in existence: the large gold reserve of the Reichsbank, the scarcity of currency and the difference in the purchasing power of the mark at home and abroad. These facts would make it easy to obtain control of the money market. With the dollar quoted at 3500 marks, the gold reserve of the Reichsbank equalled twice the value of the note circulation, which was unprecedented. No other currency had fallen into decay with so great a potential support still unused.

The opinion of Messrs Vissering, Dubois and Kemenka, on the other hand, concluded that for a provisional stabilization of the mark a considerable foreign credit was of prime importance from the start, in order to revive lost confidence in the future of the German currency. This second group of experts contemplated a gradual and very material appreciation of the mark, while the Anglo-Saxon group recommended the immediate stabilization at a low value and the conversion at that price of the paper mark into gold.

The thorough and valuable work of all these experts, unfortunately, was of no use at the time. The Reparation Commission took no action whatever on the German Government's note of 14th November 1922.

A few days later I was informed in Paris that no practical interest in German finances could be expected from America and England until the reparation debt was finally reduced to a definite amount. The idea of a moratorium, combined with a provisional solution of the reparation problem, was again relegated to the background. Obviously all these fair plans were wrecked on the opposition of the French Government.

Once more attention was directed to the question whether a final solution could not be found, a question with which Sir John Bradbury was particularly preoccupied. The other members of the Reparation Commission agreed that by confining their efforts to the stabilization of the mark and to a moratorium no progress could be made, and that, in spite of all difficulties, they would have to make up their minds to a complete settlement of reparation.

At that time the Allies, especially France, were planning a new Interallied Conference at Brussels for the purpose of discussing reparation and Interallied debts together, but the Conference was adjourned owing to the resignation of the British Cabinet, under Lloyd George, and then time was required on all sides to prepare proposals for the solution of the two great problems. I was advised to induce the German Government to submit a comprehensive reparation programme on the ground that it was impossible for any of the Allies to put forward a plan which would provide for a material reduction of the German debt.

The new British Government, under Bonar Law, remained passive, awaiting events. The feeling in England was opposed to the Brussels Conference because it was feared that France, in return for a slight reduction in German reparation, might demand the cancellation of her entire Interallied debt. The British did not care to expose themselves to the danger that the Allies would unite at Brussels to ask Great Britain to cancel her own claims arising out of loans made during and after the war, and, in addition, surrender her share of reparation, whilst as regards reparation France would insist on unreasonably severe terms, the acceptance of which by Germany could not be obtained except by renewed threats of sanctions. British public opinion would have tolerated no such solution. Poincaré, on the other hand, had publicly committed himself to such an extent to an early opening of the Brussels Conference that he used every lever to overcome the British objections, in which course he was actively supported by Mussolini, the new head of the Italian Government. Finally it was agreed to prepare the new Reparation Conference by a meeting of the Allied Prime Ministers in London, though no one looked forward to profitable results with any confidence.

The hope still nursed by the Reparation Commission that the Bankers' Committee for the reparation loan would be able to reassemble had, in the meantime, been suddenly destroyed. J. P. Morgan had remained in Europe through the summer and autumn of 1922, and was on the point of leaving London for New York. At this moment Vissering and Dubois, having concluded their labours for the stabilization of the German mark, had gone from Berlin to Paris (at the request of Delacroix, who had earnestly

continued his efforts despite all former failures), in order to pursue their plan of forming an international syndicate for the support of the mark. In Paris Delacroix brought them in touch with the Belgian ministers, Theunis and Jaspar. Poincaré was also approached and was actually induced to invite J. P. Morgan to come to Paris for the purpose of discussing the reparation problem with him. This may not have been very easy for Poincaré, because the invitation might be interpreted as a withdrawal from the abrupt declaration by which Poincaré had sent the Bankers' Conference sky-high in June. Morgan first sent an evasive reply to the invitation transmitted to him in London, presumably to show that he was not at anybody's beck and call. Only a short while before, Poincaré had explained in the Senate and in the Chamber that no regret need be felt at the adjournment of the Bankers' Conference in Paris in June, as the bankers would be glad to reassemble at any time if they were called, since their only object was money-making. Morgan must have particularly resented this remark, but after some persuasion he consented to come to Paris. A formal invitation was then sent to him, not by Poincaré personally, it is true, but by the French Minister of Finance, definitely arranging a meeting between Poincaré and Morgan for 22nd November. Everything seemed to be in the best of order when Poincaré received a telegram from Morgan in which, among other things, it was stated that a discussion of the reparation question would be useless unless Poincaré recognized in principle that Germany must have a moratorium for several years. Thereupon Poincaré had a reply sent to the effect that his time on 22nd November was so taken up with important Cabinet meetings that, to his regret, he would be unable to see Morgan on that day. This ended the matter, and Morgan went straight from London to New York.

The impression created in the Reparation Commission by this second incident was shattering. An economic catastrophe was seen approaching, not only in Germany, but throughout Europe. The plan for the stabilization of the mark had no longer any prospect of realization when once Morgan had departed in anger.

More and more, Anglo-Saxon capital adopted the standpoint that no money could be invested in Germany until the question of reparation was definitely settled. On the other hand, Poincaré's

political position grew steadily stronger. Owing to the success of his policy in the Near East he had the whole Chamber behind him, and no one dared to attack him publicly. All suggestions that Germany should submit a plan for a definite settlement of reparation now ceased. In Paris and London it was openly admitted that no German offer had any chance of success as long as Poincaré was at the helm.

If Germany wanted to accomplish the stabilization of the mark it was clear that she must solve the problem without foreign assistance. But as stabilization did not appear possible without a moratorium of several years, and no moratorium could be obtained from Poincaré unless France received compensation in the form of substantial payments, it became necessary for Germany greatly to enlarge the basis of her last note of 14th November if she wanted to continue a practical reparation policy. Notwithstanding the bitter disappointments hitherto experienced with German proposals, it was decided in Berlin to make a new offer to the Allies.

Germany also had just changed her Government. The Wirth Administration had fallen, worn out by internal and external difficulties, and been replaced by the Cuno Cabinet, in which Hermes remained as Minister of Finance. Dr Cuno brought from his former position as Director-General of the Hamburg-American Line extensive connexions, especially with American finance. Hermes was known for his successful negotiations in Paris in May 1922. He enjoyed the esteem and confidence of the Allies. With full vigour and fresh resolution the Cabinet took up the difficult problem confronting it in foreign politics. Its zeal to advance the reparation problem through proposals of its own was not to be shaken by warnings from any quarter. Nevertheless, all those familiar with the question of reparation and the attitude of the French Government were bound to apprehend that any proposal made by Germany, reasonable or unreasonable, would be of no avail. *Poincaré would reject it, if for no other reason than that it emanated from Germany.* With her preponderating political power there was no prospect of converting France on the reparation problem, or of out-voting her. If a German proposal was to be made with any chance of success it was necessary that it should not be submitted at a conference where it would be immediately rejected, but should first

be discussed carefully with Allied experts, and preferably with members of the Reparation Commission. The simplest way would have been, of course, directly to approach experts of the French Government, but this course, which had previously been followed, had been closed since the Conference of Genoa and the Rapallo incident. Those in France who knew the reparation problem and had judgment—Seydoux, in particular—had since been shelved by Poincaré and could no longer be reached by confidential agents of Germany. To treat of these matters with Poincaré himself in such a way as to approach a practical solution was absolutely impossible. On principle, he met Germans only in strictly official audiences, at which he said nothing but: "*I demand the strict fulfilment of the Treaty of Versailles.*" He simply could not understand that it was first of all necessary, by reasonable negotiations, to make the Treaty capable of execution. As stated, the new German Government did not allow itself to be discouraged by any of these facts.

At the London meeting of the Prime Ministers of Great Britain, France, Italy and Belgium, Chancellor Cuno, in a letter to Bonar Law, dated 9th December 1922, submitted a proposal which was designed not only to settle the obligation of Germany under the London Schedule of Payments for the next few years, but also to pave the way for a final settlement of the reparation question. The proposal, which was based on suggestions made by Director Wassermann of the Deutsche Bank, put in the foreground the stabilization of the mark in accordance with the German note of 14th November, with this addition, that the German Government declared its determination to attempt the stabilization with its own resources in case the granting of a foreign credit should be found impossible at the moment. Germany further proposed to meet the current reparation debt for the next few years by a gold loan to be issued in Germany and abroad. The part of the loan to be sold in Germany was to carry interest at 4 per cent., and a sinking fund of ½ per cent. Subscribers were to enjoy far-reaching exemption from taxes, especially inheritance and capital revenue taxes. Furthermore, an amnesty was to be granted for offences against the laws regarding the flight of capital abroad, by which means it was hoped to induce German capital in hiding abroad to return to Germany and to participate in the reparation loan. The whole proceeds of

the foreign loan were to be used for reparation. Of the proceeds of the internal loan, one-half was to be turned over to the Reparation Commission, while the other half, up to 1½ milliard gold marks, was to serve Germany's own requirements, particularly the stabilization of the currency and the balancing of the budget of the Reich; if half the proceeds exceeded 1½ milliards, the excess would likewise enure to the benefit of reparation. Simultaneously with the issue of the internal loan, the German Government proposed to place at the disposal of the Reparation Commission German Treasury bills to the amount of 3 milliard gold marks, secured on the German customs revenue and enjoying priority over all other obligations under the Treaty of Versailles.

In return the German Government asked to be relieved for two years from all cash payments and from such deliveries in kind as could not be paid for out of the German budget. For each milliard gold marks which the Reparation Commission received from the internal loan, Germany was to be freed from cash payments for an additional year. The arrangement was to extend over a maximum period of five years.

The offer of Dr Cuno was read by Bonar Law at the Conference of Prime Ministers. As was to be expected, Poincaré at once moved its rejection without discussion, as being entirely unacceptable. And so it was decided. Bonar Law notified Dr Cuno on 10th December 1922 that his offer could not, under present conditions, be considered as satisfactory. The obstinacy of Poincaré had once more frustrated any reasonable discussion of the German proposal, which would, however, have been well worth serious consideration, as was freely admitted to me at the time by British and Belgian members of the Reparation Commission. The offer of a gold loan would have appeared acceptable to them if it had been developed in greater detail. In particular, the offer lacked a statement to the effect that the big German industries supported the offer of the Government and were themselves ready to guarantee the success of part of the loan: certainly there was no good reason for a flat rejection of the carefully prepared German proposal.

Mussolini then submitted an Italian proposal for the solution of the reparation problem, which also found no sympathetic consideration at the Conference.

As no practical results could be obtained Poincaré moved the enforcement of sanctions against Germany, particularly the occupation of the Ruhr District. This was rejected by the Conference. The meeting was then adjourned with a decision to continue the discussion between the Prime Ministers on 2nd January 1923.

Despite the failure in London, the German Government, during the latter half of December, worked feverishly on a comprehensive offer for the complete solution of the reparation problem. It desired to prove to the Allies by facts that it took its reparation obligation in deadly earnest. Numerous financial and industrial experts were called into consultation and a plan was to be drawn up that would go to the utmost limit of Germany's capacity. In the course of these discussions I communicated the outlines of a plan by Sir John Bradbury of which I had just been informed in London. In essentials it was based on the ideas of the plan which Great Britain soon afterwards presented at the Paris Conference and at which we shall presently have to look more closely. It had been urged upon me in London that the German Government should take up the British plan and make it its own, but the German experts rejected it as impossible of execution. They found it very difficult, however, to agree on a plan of their own, and the German proposals were completed only during Christmas week. Dr Cuno and his Foreign Minister, von Rosenberg, wished to publish them at once, even before the Allies met in Paris, and it was only with difficulty that they were convinced that under prevailing conditions not even a moral success was to be expected from any German offer. It would have been promptly cried down by the Paris Press and was sure to meet with flat rejection by Poincaré.

The Reparation Commission likewise displayed a sedulous activity at its Paris office, but not of a constructive character. It confined itself to denouncing German defaults. After the fiasco of the London Conference it became more and more apparent that the only aim of French policy was to set sanctions in motion against Germany, which was possible only if the Reparation Commission established the default of Germany in meeting her reparation obligations. For the moment, however, it seemed as if the occupation of the Ruhr constantly threatened by Poincaré was receding into the background. Poincaré stated to the Chamber,

and to representatives of the Press, that the military occupation of the Ruhr was not the only means to obtain material guarantees from Germany, and that he was rather seeking to realize his policy of productive pledges by administrative measures in the Rhine District.

As early as 20th October 1922 the French delegation to the Reparation Commission had proposed to pronounce Germany's voluntary default in the delivery of timber to France. The deliveries of timber under the Treaty of Versailles had, in fact, been the object of never-ending contention with the Commission. The Allies declared that it was just by deliveries of timber that Germany, with her large forests, could do something substantial for reconstruction. The German Government, on the other hand, pointed out that the Reich had no timber lands of its own, but had to fall back on the individual German states which owned the forests, and on the timber trade, and was therefore entirely dependent on market conditions. As with all other deliveries under the Treaty of Versailles, so with timber the question of price played an important part. When an agreement was finally reached regarding the price it appeared that there would be great delay in delivering the quantities fixed in the programme of the Commission for 1922. The German Government had invited public offerings at firm prices made in paper marks, but had not reckoned with the fact that, owing to the rapid depreciation of the mark in the summer of 1922, nobody could furnish the timber at those paper prices. Nor did the Government take prompt action to raise its bids to offset the depreciation of the mark, with the result that by the end of the year only a fraction of the timber ordered had been delivered. So far as France was concerned, deliveries were in arrear to the extent of 20,000 cubic metres of sawn timber and 130,000 telegraph poles, worth a few million gold marks.

On 1st December 1922 German representatives were granted a hearing on the deliveries of timber before the Reparation Commission. They explained the arrears as being due to the depreciation of the mark and to various technical difficulties—in particular, to the fact that the types and dimensions ordered by the Allies were not customary in the German timber trade. They promised to make up the deficiency by 1st April 1923. The tone of the negotiations with the German representatives was unpleasant. They

had the impression—and in this they were justified—that Barthou, the chairman of the Commission, was trying to set a trap for them with every question, and were therefore embarrassed and altogether overcautious in their statements. The atmosphere was already heavy with thunderclouds. The majority of the Commission had no longer any desire to reach an agreement, although Sir John Bradbury did his best for an amicable adjustment.

On 26th December 1922 the Reparation Commission rendered its verdict. It stated unanimously that Germany had failed to make the full deliveries of timber to France for 1922. It further found, against the vote of the British delegate, that this constituted a voluntary default by Germany under her obligations. With the British delegate abstaining from voting, it was resolved to notify the Governments concerned of the decision, but also to recall to them that in its letter of 21st March 1922 the Reparation Commission had stated: "If the Reparation Commission finds, in the course of 1922, that deliveries in kind called for by France or by any other Power entitled to reparation have not been effected by reason of a breach in the procedure of the Treaty, additional equivalent cash payments shall be exacted from Germany at the end of 1922 in replacement of the deliveries not effected." This communication to the Allied Governments could only be interpreted as an indication by the Commission of the way in which, in its opinion, Germany could and should atone for her default.

The nearer the day approached when the Allied Prime Ministers were again to meet in Paris the more uneasy grew the Government in Berlin. It was absolutely bent upon bringing its plan to the knowledge of the Allied Conference. On 30th December it instructed its diplomatic representatives in Paris, London, Rome and Brussels—by wire—to notify the Allied Governments that a new German reparation plan had been prepared which would be communicated upon request to the Paris Conference by an authorized representative of the German Government. This message was officially transmitted to the French Government by the German ambassador on 1st January 1923. It is important to state this fact because, in a speech made on 23rd April 1923, Poincaré affirmed that the German offer for the January conference in Paris did not exist at the time but was concocted after the event.

CHAPTER XXII

THE CONFERENCE AT PARIS FROM 2ND TO 4TH JANUARY 1923

I ARRIVED in Paris on 2nd January 1923 with instructions to hold myself at the disposal of the Conference in case it wished to be informed of the German plan. Upon making confidential inquiries in the Reparation Commission, I was advised to withhold communication of the plan for the moment and to await the developments of the next few days. I was told at the same time that there was little chance of my being heard by the Conference about the German plan; France might perhaps leave it to the German Government to submit her proposals in writing. Nothing remained, therefore, if I did not wish to upset matters, but to wait quietly for the Conference to express a desire for information regarding the German plan. No such opportunity arose, owing to the rapidity with which the Conference was broken off, and none of the Allied Governments gave any reply to the communication that the German Government was ready to submit its plan.

At the opening of the Conference, on 2nd January, each of the Governments represented—excepting Belgium—presented a reparation plan.

The object of the British plan was to effect a settlement of reparation in conjunction with the European Interallied debts. The German debt was to be fixed on the basis of the proposals which Sir John Bradbury had prepared some time before. According to that plan Germany was to turn over to the Reparation Commission, in lieu of the 132 milliards of the London Schedule of Payments, new bonds to the amount of 50 milliard gold marks, carrying interest at 5 per cent. per annum and repayable at par on 31st December 1954. For the first four years, till 1st January 1927, all interest was to be deferred, and for the next four years only 4 per cent. interest was to be paid. For the capital value of the interest so deferred Germany was to issue, on 1st April 1933, additional 5 per cent. bonds to the amount of 17·31 milliard gold marks, repayable at par on 31st March 1965. Upon Germany's demand, however, a Court of Arbitration was to pronounce, prior

to 1st April 1933, on the question whether and to what extent the additional payment was within Germany's capacity.

The total of Germany's annual payments, therefore, was to be as follows: for the first four years—*nil*; for the following four years—2 milliard gold marks yearly; for the following two years —$2\frac{1}{2}$ milliard gold marks yearly; after ten years—$3\frac{1}{3}$ milliard gold marks yearly, or such smaller sums (not less than $2\frac{1}{2}$ milliards) as might be decided by an impartial tribunal.

For the supervision of German finances a Finance Committee was to be established in Berlin, composed of representatives of Great Britain, France, Belgium and Italy, as well as of an American and a neutral member. The German Finance Minister was to preside, but he was to vote only in the event of the votes of the other members being equally divided. He was to follow the advice of the Finance Committee on all questions of currency legislation, budget and tax laws, general financial administration, flight of capital and foreign exchange dealings. The Finance Committee was to leave the German administration as far as possible in German hands and to refrain from any initiative in the details of legislation. It was to have power to antedate the beginning of the annual payment of the 2 milliards to the extent of two years and also to make various adjustments in respect of further payments, without increasing, however, the total German debt. The plan did not provide for regular amortization, but Germany had the right to redeem the 50 milliards of bonds at a rate of discount which began with 8 per cent. and was gradually reduced to 5 per cent. The plan calculated the present capital value of the total German payments thereunder at from 37 to $39\frac{1}{2}$ milliard gold marks. They were intended to cover all financial obligations of Germany under the Treaty of Versailles, not only reparation but also the cost of the armies of occupation, amounts due to the clearing offices, the cost of commissions, etc. Germany's deliveries in kind were to be paid for in cash during the first four years by the receiving countries, or to be reduced to a minimum—coke to France, and coal to Italy, with the possible addition of dyestuffs. The Reparation Commission was to be dissolved, or continued only as a court of appeal.

Germany was at once to stabilize her currency and restore budget equilibrium. In the event of any default under the plan she

was to submit to all measures which might be deemed necessary by the unanimous decision of the Allied Powers, including military occupation of further German territory.

The British plan further proposed a settlement of the Interallied debts that had originated between the European Allies during the war. The American claims against Europe, of course, were not included in the proposed arrangement, and the loans granted to the Allies after the close of the war were also to remain in force undisturbed.

In return for the cancellation of her war claims Great Britain demanded, first, the waiving of the Belgian priority on reparation; and, second, the acknowledgment of France and Italy that the gold deposited by them in England during the war was to be considered as forfeited. The amounts involved were about 1 milliard gold marks in the case of France, and about 400,000,000 gold marks for Italy. The gold had been sold to America during the war with the consent of the countries concerned, so that, as a matter of fact, no such deposit existed any longer in England, a fact which then became public for the first time. It may be mentioned that the French gold deposit in England continues to appear to-day as gold held abroad in the statements of the Bank of France.

In addition, France was to transfer to Britain her share in the German obligations intended for the payment of the Belgian war debt. Italy was to transfer to Britain in like manner 1½ milliard gold marks of German obligations. Provision was also made for the settlement of the debts between the so-called lesser Allies.

The French reparation plan was as follows: France declined to permit any reduction of her share in the payments due from Germany under the London Schedule of Payments. A reduction of the total German debt could only be considered if other Allies altered their share in reparation in favour of France or granted priority for the reconstruction of the devastated areas. France would pay interest and principal on her Interallied debt only after all expenditure for the reconstruction of the devastated areas had been covered by German payments. These expenses approximately corresponded to the French share in the A and B bonds of the London Schedule of Payments, or to 52 per cent. of 50 milliards—26 milliard gold marks.

With this understanding France was ready to assign to the Allies an amount corresponding to her debt to the Allies, out of her share of the C bonds of the London Schedule of Payments. She would further cancel the balance of her share in the C bonds if all Allies did likewise. Germany could be granted a moratorium only for two years, and only to a limited extent; but Germany must, even during the moratorium, pay the expenses of the armies of occupation and of the Interallied commissions, make the deliveries in kind required under the Treaty, make payments due in respect of the clearing offices and arbitral tribunals, etc., as well as carry out restitutions, and pay a certain amount in cash for reparation.

To secure all of these liabilities guarantees were established. Deliveries of coal were to be supervised by an Interallied Control Commission in Essen, under French chairmanship. This commission was to be authorized to give orders to the coal syndicate and the German traffic administration. The Allied Governments might exploit the timber in the state and communal forests of the occupied territory. For deliveries in kind requisitions might be made in the occupied territory and the Ruhr District, under the control of the Rhineland Commission, in so far as Germany was in arrear with her deliveries. A tax was to be levied in foreign exchange on the exports from the occupied territory and the Ruhr District. The customs receipts and the coal tax in the occupied territory and the Ruhr District were to be seized for account of the Allies; part thereof was to be collected in foreign currency.

The French plan calculated the German annual deliveries and payments for reparation during the moratorium at a minimum of 1 milliard gold marks. In fact they would have been much higher, as the cost of occupation, clearing offices, restitution, etc., was also to be borne by Germany.

Any default by Germany under the foregoing programme was to involve automatically the following sanctions: (1) military occupation of the Essen and Bochun districts and such other parts of the Ruhr basin as Marshal Foch might determine; (2) the drawing of a customs line east of the entire occupied territory.

It is impossible to estimate what would have been the present capital value of Germany's total debt under the French proposals as, in addition to the 50 milliard gold marks which represented

the minimum of reparation proper, the annual cost of occupation, amounting to 220,000,000 gold marks, and the further collateral liabilities under the Treaty of Versailles, the amount of which remained undetermined, would also have had to be paid.

The Italian plan conformed to the ideas developed at the London Conference of December 1922, by Mussolini, who did not attend the Paris Conference in person. For any reduction of the German debt a corresponding sacrifice of Interallied debts was demanded of Great Britain, by which means it was proposed to reduce the reparation debt to 50 milliard gold marks. In consideration of a two-year moratorium Germany was to negotiate forthwith a loan of not less than 3 milliard gold marks. Part thereof was to be applied to the stabilization and improvement of the mark, in accordance with the report of the experts called to Berlin in November 1922, whilst the remainder was to be distributed amongst the reparation creditors. The German banks and German industry were to guarantee the issue of the loan of 3 milliard gold marks. When the moratorium had expired, and the German credit had been rehabilitated, Germany was to fund the reparation payments into large loans. Early repayment was to be compensated by a higher discount rate. The Italian plan likewise proposed special pledges, in addition to the general control represented by the securities furnished by the Treaty—such as direct collection of customs receipts by the Allies on the frontier of the Rhineland, control of the State-owned German forests and the Government mines in the Ruhr District.

The publication of the British plan created a great sensation inside and outside the Conference. It affronted all the Allies, less by the proposed settlement of reparation than by the sacrifices it imposed on Britain's associates. Belgium resented the demand for the surrender of her priority, which assured her the right to the next milliard gold marks out of reparation. France and Italy were particularly indignant with the demand that their gold deposits in England should be forfeited.

All but the British representatives in the Conference were at once agreed that the British plan was completely unacceptable. Poincaré complained to Bonar Law that his proposal, in many points, violated the Treaty of Versailles, and in fact destroyed it.

He further stated that the plan reduced the German payments to an intolerably low figure. Germany might, by an immediate payment of the total debt, obtain complete release with 27 milliard gold marks. France would thus receive less than the amount of her own debt to America, and nothing would be left for the reconstruction of her devastated areas.

Bonar Law's criticism of the French plan was just as sharp. If carried through, it would complete the destruction of German credit and render a settlement of reparation impossible. One had to choose between the hope of considerable payments by Germany in the future, as provided in the British plan, and the certainty that, after a short period of limited payments which might be wrung out of Germany under the French plan, the possibility of reparation would disappear altogether. The moratorium which France was willing to grant did not really deserve the name, as it demanded from the start annual payments amounting to about 1½ milliard gold marks.

The agitated discussions between the Allies lasted only two days, and as early as 4th January the Conference was closed without result. The Allied chiefs parted with an exchange of polite phrases, regretting the negative outcome of the meeting and mutually assuring each other of continued friendly relations. As a matter fact, however, the Conference had given public expression to the deep-seated discord among the Allies, and especially between France and Britain. Poincaré made the significant statement that France had now regained her liberty of action for the execution of the signed Treaty.

In the general excitement none of the Allies remembered that a German reparation plan also existed, for the communication of which I was present in Paris. To submit the plan without request would not only have been a gross tactical mistake but also detrimental to the German interests. Even the British plan, which, after all, was based on German payments of 50 milliard gold marks, had been declared unacceptable by the other Allies. What sort of chance was there of making a more favourable impression with the German proposals, which were naturally far outdistanced by the British plan! The German plan for the Paris Conference, of which I was the bearer, has never been published. It may be outlined here, at least in its fundamental provisions.

Germany offered immediately to arrange an international loan of 20 milliard gold marks, bearing 5 per cent. interest and 1 per cent. amortization. Interest for the first four years was to be paid out of the proceeds of the loan; amortization to commence after four years. Part of the loan was to be floated in Germany. One-half of the proceeds of this issue was to be applied to Germany's own requirements, and especially to the stabilization of the mark. In so far as the entire amount of 20 milliards could not be covered by loans by 31st December 1926, it was to carry 5 per cent. interest and be amortized with 1 per cent. as from that date.

Germany, further, was ready, her capacity permitting, to issue, after 1st January 1927, an additional reparation loan of 5 milliard gold marks, also carrying 5 per cent. interest, with 1 per cent. for amortization. Germany's capacity to do so was to be proved if the financial syndicate which floated the first large loan was able to place the additional 5 milliards abroad, by public subscription, upon normal terms and upon the general credit of the Reich.

After 1st January 1931 Germany would issue, upon the same terms, a third loan of 5 milliard gold marks. Germany promised to grant to the loan syndicate all reasonable guarantees, details being reserved for negotiations with the loan syndicate. In spite of their doubts as to whether even this offer was not in excess of Germany's capacity to pay, German industrial and banking interests would support the Government in the execution of the plan. The Government would pass the legislation necessary to enlist all the creative energy and production of the country.

In other respects the plan followed the lines of the German offer of 14th November 1922.

Had these proposals been communicated to the Allies in the state of irritation developed during the Conference, all former experience with earlier German offers gave the assurance that the quarrelling Allies would have reunited to enforce common sanctions against Germany, in pure indignation over German insolence.

PART III

THE OCCUPATION OF THE RUHR

CHAPTER XXIII

FORCE AND PASSIVE RESISTANCE

The Conference at Paris had scarcely been broken off when everyone began to speak of the occupation of the Ruhr as of an event that had now become unavoidable. It was not realized in those days what nonsensical logic it was for the Allies to occupy German territory by force because they had failed to agree between themselves on reparation and their mutual debts. Germany herself was not by rights a party to the proceedings. It was not a case of Germany, by her action or omission, rousing the Allied Powers to wrath which had to find an outlet in new sanctions. Germany had not been requested at all to express herself in any way at the Conference. The political differences between Britain and France, with which Germany had nothing to do, had led to open conflict at the Paris Conference. That Germany had to endure such terrible suffering on account of this quarrel between the Allies, which she was powerless to affect, is one of the worst examples of injustice in the world's history. The weak was standing by while the strong were fighting, and received the thrashing.

Some members of the Reparation Commission deliberated with me in Paris, as early as 5th January 1923, as to what Germany should do in the event of occupation of the Ruhr. Their advice to me was that Germany should ask the Reparation Commission to give an authoritative opinion on the question whether the occupation was within the Treaty rights of the Allies. Such a ruling would have to be unanimous, and it would probably not be possible to attain unanimity. But if the Commission should decline to render such an opinion, then Germany should apply for temporary admission to the League of Nations and ask the League to arbitrate. It was one thing if Germany was alone in declaring the invasion illegal and another if she was supported by the public opinion of the world. The German Government did not take this advice, the utility of which was very questionable in any event.

France this time was bent upon immediate occupation. All indications pointed in that direction. But what brought Poincaré the irresolute just then to the decision to carry out the threat which

he had been brandishing for so long that he had finally himself grown to be afraid of it? This is a psychological puzzle which is hard to solve. When the Conference at Paris was broken off Poincaré was in a dire dilemma. By the open quarrel with Great Britain the reparation car had become hopelessly stuck. France had to try now to collect reparation unaided, and this seemed possible only by resorting to force.

The decision to occupy the Ruhr is said to have been reached as follows. In his predicament, Poincaré went to Millerand, President of the Republic, for advice. Millerand, always under the influence of the steel-makers centred around de Wendel, who saw in the occupation of the Ruhr an excellent means of securing a constant supply of coal and coke for the operation of their works, advised Poincaré that he would now have to proceed in earnest with his much talked-of occupation of the Ruhr. But Poincaré still hesitated. It was only when Le Trocquer, the Minister of Transport, a nationalist Hotspur and always an aggressive advocate of the occupation of the Ruhr, convinced Poincaré by figures that the plan prepared months ago for an enforced French administration of the Ruhr District under military protection would result in important and assured reparation profits that Poincaré was finally induced to take the dreaded step.

I cannot vouch for the absolute accuracy of the story, but I have it from a well-informed source and it sounds probable.

Be that as it may, France moved the Reparation Commission to declare Germany in default in her deliveries of coal with all speed. For the occupation of the Ruhr, if the form of legality was to be preserved, had to be construed as a Treaty penalty for Germany's violation of her reparation obligations. To this end it was necessary that the Reparation Commission should establish guilt, and give notice thereof to the Allied Powers. Thereupon, in accordance with § 18 of Annex. II. to Part VIII. of the Treaty of Versailles, the Allied Powers were entitled to adopt economic and financial prohibitions and reprisals, and in general such other measures as the respective Governments might determine to be necessary in the circumstances. The French Government had always taken the stand that these measures included the occupation of additional German territory, and that each individual Power could act on its

own responsibility. We shall later enter more fully into this legal question.

As we know, the Reparation Commission had a few days before declared Germany in default in her deliveries of timber, and this against the vote of the British delegate. On this offence alone, however, a case for using the Ruhr occupation as a penalty could not, even in the opinion of the French Government, be provided, since the occasion was too trivial. Moreover, the seizure of the Ruhr District would not increase the deliveries of timber; it contained no timber, but it did contain much coal, and France wanted more coal and much more coke than she had so far received; so Germany must be found guilty in the realm of coal deliveries.

In the question of coal deliveries, comparative calm had succeeded the storms of the first years. The Reparation Commission had fixed recent monthly deliveries of coal at 1,700,000 tons, and Germany delivered regularly about 10 per cent. less. Naturally, complaints were made from time to time about deficiencies—both as to quantity and quality. In each instance the German Government explained that the different qualities of coal—especially coke—were not available in the quantities required. This ended the matter in most cases, and, on the whole, conditions were considered tolerable on both sides. *Prior to the Conference at Paris it never occurred to the Reparation Commission to bring about a conflict on the question of coal deliveries.* According to a memorandum of the French Government, of 2nd January 1923, the Reparation Commission had demanded for France and Luxemburg for the first eleven months of the year 1922 a total of 13,864,100 tons. Of this Germany actually delivered 84·4 per cent.—*i.e.* 11,710,365 tons. According to German statements the deliveries were greater, and amounted to 89 per cent. During the last three months German deliveries had exceeded even this percentage. Notwithstanding these facts, coal had to furnish the legal ground for the occupation of the Ruhr. All other complaints enumerated in the French memorandum mentioned referred to things of minor importance—such as nitrates, paving stones and hydraulic construction called for by the vast Le Trocquer programme. These complaints were, moreover, too indefinite and not sufficiently supported. The occupation of the Ruhr District, with its coal resources, could best be

justified before the world by the deficiency in deliveries of German coal to France.

On 9th January 1923 the Reparation Commission, against the vote of the British delegate, declared Germany in voluntary default in deliveries of coal. Technically the Commission was within its rights, for Germany had, in fact, failed to deliver the full quantities called for, but the Commission had for many months tolerated in silence the deficiency of slightly more than 10 per cent. to which reference is made above. It was well aware that its demands almost reached the limits of Germany's ability to deliver. It should not, therefore, have lent itself to a sudden use of the question of coal deliveries as a pretext to justify the military occupation of Germany's most important industrial centre. All the members of the Reparation Commission, without exception, realized that the occupation of the Ruhr was an act of political coercion which would inevitably lead to an economic catastrophe. It was to the Reparation Commission that the Treaty of Versailles looked to safeguard the economic life of Germany and thus to secure that it should continue capable of paying reparation. The Commission well knew what was at stake when it declared Germany in default in respect of her coal deliveries, and it debased its independent economic authority to become a political tool of the French Government. The British delegate was the only member of the Commission who openly opposed the decision.

Some other members of the Commission must undoubtedly have had a severe struggle with their consciences. They were, however, compelled by political pressure to act as their Governments demanded in order to maintain good relations with a powerful France.

French and Belgian troops entered the Ruhr District at once, on 11th January 1923. The German Government was notified of the occupation in identical notes from France and Belgium, in the following terms.

On account of the default of Germany in the deliveries of timber and coal it had been decided to send a control commission of engineers into the Ruhr District in order to supervise the operations of the coal syndicate, to ensure a strict compliance with the programme of deliveries, and to take all other measures necessary for

the payment of reparation. The Italian Government had likewise decided to participate in the mission by sending her own engineers. The Allies at the moment intended no military operation or occupation of a political character; they only sent into the Ruhr troops necessary for the protection of the mission. There would be no change and no interruption in the normal life of the people. The German Government had the greatest interest in facilitating the work of the mission and the quartering of the troops. If necessary, however, coercive and punitive measures would be resorted to. The Control Commission for the mines and factories was authorized to demand information of any and all kinds from anyone in the occupied territory, to enter offices, mines, factories, railway stations, etc., and to inspect any documents, commercial books and statistics. The personnel of the German administration and the representatives of the German industrial and commercial organizations were to place themselves at the disposal of the mission and to be guided by its orders under pain of heavy penalties. After 11th January 1923 the distribution of coal and coke heretofore made by the coal syndicate was to be placed under the direction of the Control Commission. The Allied countries and the occupied territory to the left of the Rhine were to be supplied first; the newly occupied territory should also receive an adequate supply.

No mention was made of the requirements of unoccupied German territory.

The coal syndicate did not wait for the arrival of the Control Commission and the troops, but moved, with all its records, to Hamburg.

The German Government, as was to be expected, did not submit to the orders of the occupying Powers. In its note of reply of 12th January it declared that it was necessary to tear aside the veil which France and Belgium sought to cast over the true character of the occupation. It was contrary to the law of nations and the Treaty of Versailles. The seriousness of the violation of the Treaty could not be concealed by giving the occupation a pacific name. The boundary of the unoccupied German territory had been crossed by an army organized and equipped for war. This denoted a military occupation. The German Government entered its solemn protest before the whole world against the violence inflicted upon a

defenceless people. It was unable to defend itself against force but declined to submit to the breach of peace, much less to co-operate in the execution of the Franco-Belgian plans. Responsibility for the consequences rested with the Governments which executed the occupation. The evil results were already evident in a further depreciation of the mark and the rise by leaps and bounds of all prices in Germany. As long as conditions in violation of the Treaty and their consequences subsisted, Germany was not in a position to make payments or deliveries to those Powers which had brought about the present situation.

The German ambassador in Paris and the German minister at Brussels left their posts. Diplomatic relations with France and Belgium were maintained by chargés d'affaires.

By public notice dated 13th January 1923 deliveries in kind to France and Belgium were suspended. The Reich Coal Commissioner, on 11th January 1923, had notified all mines in the Ruhr District that the German Government would make no further payments for delivery or transportation of reparation coal to France and Belgium. A few days later he expressly prohibited the mines from delivering any further coal or coke to either France or Belgium —even if the Allies paid for the coal themselves or made advances on it. On 19th January 1923 instructions were issued to all functionaries of the Reich and of the states in the occupied territory not to comply with any orders from the occupying Powers but to be guided entirely by directions from their own Government. On the same day the Reich Minister of Communications issued an order that the German railway personnel in the occupied territories were not to obey the French Commander-in-Chief, and that employees and workmen were prohibited from transporting coal to France and Belgium.

It was, in fact, a state of war, with the only difference that no resistance was offered to the advance of the French and Belgian troops. The occupation was not confined, as was certainly the original intention, to the district of Essen, the centre of the coal region of the Ruhr, but was extended within a few days to the north and south, as well as to the districts of Bochum and Dortmund. In the end almost the entire coal region of the Ruhr was in the hands of the French and Belgians.

Was the occupation of the Ruhr legal or not? This question has been discussed on all sides with more or less passion. The legality of the occupation rested on certain provisions of the Treaty of Versailles. An unprejudiced examination of these provisions shows that the Treaty gives no such right to France and Belgium. The occupation of foreign territory is the most extreme measure that can be taken against a sovereign State. By itself it creates a state of war. The famous provision of § 18 of Annex II. to Part III. of the Treaty of Versailles—that in the event of Germany's voluntary default, apart from economic and financial prohibitions and reprisals, other measures may be taken—cannot possibly include the occupation of additional German territory. The occupation of German territory is dealt with in a separate chapter of the Treaty, and nowhere in this chapter is any mention made of an occupation beyond the limits determined by the Treaty. It is therefore impossible to assume that § 18, which stands in the chapter dealing with reparation, was intended, thus incidentally, in a vague and general provision, to authorize the occupation of additional German territory. Furthermore, the structure of reparation in the Treaty is such that the Allies may present and prosecute their claims only jointly. For this purpose the Reparation Commission was created. If sanctions are to be applied against Germany they must be decided and carried into effect by the Allies jointly. It is true that § 18 says that such measures may be taken by the "respective Governments," but this can only be construed to mean joint action by the Governments represented in the Reparation Commission and not by any single one of the Allied Powers. Any action by a single Power on its own account would disrupt the entire reparation system of the Treaty.

Of the Allied Powers, the British Government, in the course of time, came more and more tenaciously to hold the view that the occupation of the Ruhr could not be reconciled with the Treaty and was therefore illegal. However, it made no formal protest at any time, and for political reasons allowed the French and Belgian action full play. Fundamentally, however, Britain in particular must share the blame for the way in which the idea of the occupation was allowed to develop and be translated into action. It should be remembered that at the conferences at Spa (July 1920) and at

London (March 1921)—as well as in the London ultimatum of 5th May 1921—the Lloyd George Cabinet used the threat to occupy additional German territory, especially the Ruhr District, to force Germany to make reparation payments. Lloyd George not only threatened the occupation but carried out the threat. Under his leadership the towns of Düsseldorf, Duisberg and Ruhrort were occupied in March 1921, on account of the attitude of the German delegates at the Conference in London. And when Germany submitted to the London ultimatum, in May 1921, and a settlement of reparations—on paper—was effected, the economic sanctions which had been inflicted on Germany were after some time removed, but the occupation of the three towns continued.

The military invasion of the Ruhr District was met by the German people and the German Government with an attitude which has become generally known as passive resistance. For the fact that this passive resistance collapsed after six months the Government of Dr Cuno was later severely censured. But we must be just; the policy of passive resistance in itself should not be condemned. The German Government owed it to the German people's sense of justice, as well as to Germany's figure in the world, not to submit to France's force but to resist it. Universal contempt would have fallen upon Germany had she submitted without resistance to the order of the French commanders in the Ruhr District. Germany, conscious as she was throughout that right was on her side, would thereby have placed herself in the wrong and would have accepted the occupation of the Ruhr as a just punishment for default in her reparation obligations. In the eyes of the world she would then have been adjudged a country without sense of honour. By ready submission to foreign rule Germany would have forfeited all claims to political independence. Resistance to the occupation was therefore imperative for Germany. The only question to be decided was how to organize and carry it out. In this respect the German Government did, indeed, commit mistakes. Under proper leadership the German people, who in a wave of patriotic enthusiasm and self-denial took upon themselves all hardships and privations, might have offered better and more prolonged resistance to foreign coercion and might possibly have carried it through successfully.

Some of the measures adopted by the German Government in

the beginning of the occupation were unnecessary and futile. It was proper, for example, to suspend deliveries in kind; but the reasons given for the suspension were unintelligent. It should not have been expressed as retaliation against France and Belgium; deliveries to *all* Allied countries should have been stopped, on the ground that the invasion of the Ruhr District had shattered the economy of Germany—especially its coal production—and thereby rendered Germany incapable of making reparation. That would have been in accordance with the facts, and would have been understood abroad.

It is, at least, doubtful whether it was advisable to forbid the German industrials to furnish coal to France and Belgium, even if paid for by the recipients. In their first alarm at the unexpected German resistance the Franco-Belgian mission had actually offered to pay the mine-owners cash for the coal. To accept the offer would have been an act of political shrewdness. If it was made in good faith it would have hit the occupying Powers in a very tender spot —their purse—and would have demonstrated at the start the economic mistake of the Ruhr occupation. And if the offer was a feint it would have placed France and Belgium politically in the wrong.

It is also questionable whether it was expedient to summon the railway employees in the occupied territory to an organized resistance and to enrol all Reich and State officials in the defence. This provoked immediate and severe counter-measures, and placed in the hands of the enemy the operation of the railway system and the administration of the occupied territory.

In consequence of these measures the German Government was compelled continuously to expend large sums for the maintenance of idle industries and the support of expelled railway employees and German functionaries. This imposed a burden which, even with the greatest economy in the Reich, could not be borne for any length of time, and which, combined with the further depreciation of the currency, was bound to lead to an early collapse.

The occupying Powers promptly proceeded to coercive measures. On 13th and 18th January the Interallied Rhineland Commission —the controlling body of the Allies in the occupied territory— issued a series of ordinances seizing the coal tax, the customs

receipts, the taxes on imports and exports, as well as the revenues from communal and Government-owned forests, and placing the distribution of coal under the complete control of the Franco-Belgian mission. Further ordinances of the Rhineland Commission, dated 20th and 25th February, established special Interallied authorities for the administration of the sequestrated German revenues. The entire occupied territory was soon completely cut off economically from unoccupied Germany by customs barriers and the prohibition of exports.

Simultaneously the military occupation was so far extended beyond the Ruhr basin that no direct access remained from unoccupied Germany to the Cologne zone, held by English troops. Even South German Rhine ports, such as Mannheim and Karlsruhe, fell into French hands. The refusal of the German railways further to operate the international trains from France and Belgium through Germany led at the beginning of February to the occupation of the important railway junctions of Offenburg and Appenweier, which greatly hampered connexions between Northern and Southern Germany.

All functionaries of the occupied territories, and all railroad employees who did not comply with the orders of the occupying forces, were systematically and brutally expelled, with their families. Many of them were thrown into prison for resistance to foreign force. Numerous industrial leaders met with the same fate. Arrests and sentences by military courts were everyday occurrences. A Franco-Belgian railroad administration—the so-called "Régie"—assumed the operation and management of the railroads in the occupied territory outside the Cologne zone, where the German officials remained. To procure the funds for the cost of the occupation the Franco-Belgian authorities did not hesitate to seize funds from the Reichsbank and private banks. Many shipments of cash *en route* from unoccupied Germany were captured. In the factories of the occupied territories the stocks of merchandise, especially coal, iron and steel, were confiscated. As the output of coal in the Ruhr District was gradually coming to a complete standstill, the Franco-Belgian mission instituted forcible operation in several important mines. A long succession of bloody encounters between the troops and the people in the streets, mines and factories made conditions

worse and worse. Within a short period all economic life in the Rhineland and Ruhr District was completely paralysed.

The Reparation Commission, too, had to join in the punishment of refractory Germany. On 26th January the Commission declared that Germany was in general default with respect to France and Belgium through stopping deliveries for reparation, and that the provisions of the London Schedule of Payments were again in full force.

The greatest danger of the occupation of the Ruhr for Germany lay in the disastrous effect it had upon the currency. In November and December 1922 the price of the dollar on the Berlin Exchange generally fluctuated between 7000 and 8000 marks. The mark, therefore, had shown some power of resistance. From the beginning of January 1923, however, the price of the dollar rose so rapidly in Berlin that at the end of the month 50,000 marks had to be paid for one dollar! If conditions were allowed to drift in that direction any attempt at resistance against the Ruhr invasion was vain. There remained only a choice between unconditional submission and a determined effort to support the currency, as the nerve centre of economic life, with every resource. Hermes, the Minister of Finance, on whom I urged this necessity, promptly decided upon energetic action for the support of the mark, notwithstanding the failure of all similar efforts on the part of the Reichsbank in the past. Dr Cuno, the Chancellor, also promptly realized the demand of the hour and personally advocated support with all his power. The Reichsbank, which alone possessed the funds necessary for intervention on the German and foreign exchanges, was difficult to win over for a comprehensive and energetic operation, as it had no faith in any lasting success. The other Government departments were either lukewarm or failed to understand the intentions of the Finance Minister. It was clear that a real success could be attained only if it was possible by wholesale purchases of marks on German and foreign exchanges so to restrict the money market as to deprive the sellers of marks—among whom owing to the existing panic a good many business interests in Germany were, unfortunately, included—of means for further sales. It was therefore necessary to start with the sale of large amounts of foreign exchange in order to cover all marks offered for sale at home and abroad. This was bound not

only to check the decline of the mark but to cause an upward movement, which would have to be fed until the public also commenced to sell its foreign currencies and to hold marks. The last severe fall in the mark had itself created the technical conditions necessary to make such an operation a material success. On 31st January 1923 the entire floating debt of the Reich—Treasury bills discounted by the Reichsbank—amounted to about 2 billion paper marks. The entire note circulation of the Reichsbank was also 2 billions. Private commercial bills discounted by the Reichsbank amounted to about 700 milliard paper marks. On the other side the Reichsbank had a gold reserve of 1,005,000,000 gold marks—equal at the rate of exchange of 31st January to 12½ billion paper marks. In addition, the Reichsbank had at its full disposal some 120,000,000 gold marks in foreign currencies. It received daily from the German export tax, even in those critical days, from one to two million gold marks of fresh foreign currency. No funds were required at the time for reparation beyond the monthly instalments of 50,000,000 gold marks for the payment of the Treasury bills given to Belgium. The Reichsbank, therefore, had a free hand and ample funds for the support of the mark. On the basis of the price of the dollar existing at the end of January, it would have been possible in theory with 180,000,000 gold marks to redeem the entire note circulation of the Reichsbank, or to extinguish the floating debt of the Reich. As the printing press had been unable to keep pace with the last heavy drop of the mark, the circulation had automatically been reduced to such a degree that a general scarcity of money resulted. Every purchase of marks was certain to aggravate this scarcity of means of payment and force people to sell their carefully hoarded foreign exchange. An immediate appreciation of the mark was therefore assured as soon as the Reichsbank resolutely undertook the supporting operation with sufficient funds.

The Finance Ministry of the Reich, however, wanted more than a momentary success. The improvement in the mark once attained had to be maintained for several months at least in order to bring about a reaction in the inflated prices of commodities and enable the people to hold out economically in the Ruhr conflict. Only in that event was there a prospect of so conducting the resistance against the occupation that an adroit foreign policy might, within

a few months, enable reasonable negotiations to be opened up with the Allied Powers. To carry on the conflict in the Ruhr indefinitely —until perchance France was ready to withdraw her troops—was, of course, absurd. The object of the resistance necessarily was to convince the other side that by resorting to force they were only doing themselves economical and political injury and that they could not hope for an early collapse of German resistance.

The technical exchange operations of the Reichsbank, therefore, had to go hand-in-hand with a carefully conducted financial policy on the part of the Reich. This was the crucial point of the supporting operation, and at the same time the most difficult part of the problem. A thorough reorganization of the finances of the Reich at that time was out of the question. The separation of the Rhine and Ruhr districts deprived the Reich of an important part of its revenue and occasioned new and unavoidable expenditure. Increasing deficits in the budget were, therefore, to be expected, but by strict economy in every direction they had to be kept at a minimum. The past year's experiences had shown that reasonable administration was possible only if the currency remained stable for at least a few months. To bring this about it was necessary not only to give sellers of marks at home and abroad confidence in the strength of the currency, but also to deprive them of all interest in a renewed depreciation. Such interest, unfortunately, existed so long as the Reichsbank made no change in the credit policy which it had hitherto pursued. During the continued decline of the mark commercial and industrial interests had learned to an ever-increasing extent that no more profitable business existed than to obtain a credit from the Reichsbank in paper marks by discounting commercial bills, promptly to invest the proceeds of the credit in commodities or, if possible, in foreign exchange, and then to repay the debt to the Reichsbank at maturity at a handsome profit in paper marks which, in the meantime, had further declined. What was thus done on a large scale with the Reichsbank naturally developed into a general practice with all public and private institutions of credit, especially with the banks. It took a remarkably long time before this evil business practice was generally recognized and held up to public obloquy. It could only be extirpated if the Reich decided promptly to break with its paper-mark system and to place

the currency on a gold basis. The Government and the Reichsbank heretofore had always recoiled from this radical cure, which had of late been urgently recommended from various sides, because they feared the evil results upon German economy of a sudden return to a gold basis. Havenstein, the President of the Reichsbank—the model of a conservative gentleman in all his thoughts and deeds—clung tenaciously to the old mark currency. He continued to hope that the settlement of reparation would some day restore the mark, and he was unable to grasp that the traditional credit policy of the Reichsbank was being systematically exploited in important business quarters.

When, at the end of January 1923, the decision was reached to support the mark, Hermes, the Minister of Finance, asked the Reichsbank to grant further credits, for the present, not in paper marks, but only on a gold basis. This the Reichsbank, supported by the opposition of the Minister of Commerce, declined, in consideration of the welfare of commerce and industry. It only promised to limit commercial credits as far as possible. In this connexion Havenstein, not without justice, pointed out that the alarming increase in the note circulation was due, not so much to the liberal credits extended by the Reichsbank to private interests, as to the ever-increasing deficit in the budget of the Reich. He urged, on his part, that the Reich should practise the most rigid economy in all of its administrative branches.

Thus the Reich and the Reichsbank finally entered upon the struggle for the mark with energy and good intentions, but took no comprehensive measures to ensure a lasting success.

The support of the mark was inaugurated simultaneously, on 31st January 1923, in Berlin, Amsterdam and New York. After some initial difficulties it met with an unexpected success. When the Reichsbank had thrown about 100,000,000 gold marks worth of foreign currency on the market the public at home and abroad became convinced that the operation was this time seriously intended. The price of the dollar declined in fourteen days from 50,000 to less than 20,000 gold marks, and after some fluctuations held steadily around 21,000 marks until 17th April 1923. This sudden turn naturally brought difficulties to commerce and industry and heavy losses to many who had speculated on a further fall of

the mark. As the Reichsbank bought all marks offered, the scarcity of money increased to an unprecedented extent. There were days when even the largest German banks were unable to obtain the necessary currency. This, however, was unavoidable, and had, in the common interest, to be accepted as part of the bargain. The continued pressure on the money market soon led to the sale by German business interests of large amounts of foreign exchange, which the Reichsbank took up at declining prices. In the beginning of March it was calculated that the cost of the supporting action to the Reich and to the Reichsbank did not exceed some 20,000,000 gold marks in foreign exchange. Thereafter the price of the mark maintained itself for a time and the attacks on the mark ceased, from utter exhaustion of the adversaries.

The truce, however, was of short duration. The well-informed were aware that new and serious dangers were threatening the mark. Notwithstanding the material improvement in the currency the floating debt of the Reich had increased, from the end of January until the end of March 1923, from 2 to 6·6 billion marks. Within the same period the note circulation of the Reichsbank expanded from 2 billions to 5·5 billions, and the commercial credits from 697 to 2372 milliards. This meant a complete reversal of conditions. With the dollar at 20,000 marks a note circulation of 5·5 billion marks represented a value of 275,000,000 dollars—or more than the entire gold reserve of the Reichsbank. The scarcity of money had gradually disappeared; the Reich and the Reichsbank in this brief interval had lavishly placed at the disposal of business immense amounts in marks. A central agency of the Reich, especially created for the purpose, paid into the occupied territory practically everything that was demanded for support. The Government railways required daily, on an average, the equivalent of 2,000,000 dollars to cover their operating deficit. The Minister of Finance, who had no control over these administrations, repeatedly and urgently protested against such mismanagement, but his warnings were of no avail. Even the Chancellor, Cuno, was powerless against the indolence of the other departments of the Reich. The only answer was that it was impossible to curtail the expenditure of the occupied territory and the railways.

With the growing ease in the money market, demands on the

Reichsbank for foreign exchange steadily increased. The bank maintained the dollar steadily at 21,000 marks and anxiously avoided any fluctuations. It soon became apparent that the dollar would decline no further and that the purchase of foreign exchange from the Reichsbank at that bottom price offered an opportunity for a sure and liberal profit. For the business world correctly argued that the increase in the note circulation and the floating debt was an avalanche which would eventually force the Reichsbank to suspend the purchase of marks for lack of funds and allow a free course to the upward tendency of foreign exchange.

The Finance Minister, Hermes, endeavoured to obtain further means for the support of the mark through the issue of 50,000,000 dollars of three-year Treasury dollar-notes, guaranteed by the Reichsbank, subscriptions to which were payable in foreign exchange. But the issue of this first-class security, which later was much in demand, was at first a failure. Only a little over one-quarter of the issue was subscribed and great pressure had to be used to induce the banks to take the remainder in order to conceal to some extent the failure. From that time onwards—the end of March—the situation became untenable.

The Reichsbank spent daily, for the support of the mark, more than 20,000,000 gold marks in foreign exchange. But when, on 18th April 1923, demands for exchange reached over 60,000,000 gold marks, the Reichsbank declared itself unable to meet this demand in full. On that day the dollar rose to 25,000 marks, reaching 30,000 marks on the following day. This meant, in effect, the breakdown of the supporting operation, though the fact was not as yet publicly admitted. In order to continue the struggle for the mark, the Reichsbank was now compelled to encroach, either by pledge or sale abroad, upon its hitherto untouched gold reserve.

The initial success of the support of the mark attracted much attention abroad. No one had believed that the German Government possessed sufficient strength for such financial resistance. The French Press showed evidence of keen disappointment and of a growing uneasiness as to whether or not the occupation would bring the desired results—namely, the submission of Germany to the military and political pressure of France. Poincaré and Theunis, the heads of the occupying Powers, met several times to consult on

the continuance of the Ruhr policy. After their first meeting at Brussels, on 14th March, a rather colourless statement was issued to the effect that the Ruhr District would not be evacuated on mere promises on the part of Germany, but only as and when she fulfilled her reparation obligations. On 13th and 14th April another conference took place in Paris. Now the wind blew sharper: not only were the resolutions of Brussels confirmed, but the application of new coercive measures—until Germany consented to make direct proposals for reparation—was announced. At the same time, the following programme for the exploitation of the occupied territory was adopted.

The goods confiscated in Germany were to be sold by the French and Belgian authorities and the proceeds deposited with a specially created office, the "Caissee de compatibilité des gages." Out of these funds the cost of occupation and collection was to be paid and the balance turned over to the Reparation Commission.

All these proclamations served as a dignified screen for France's embarrassment, but they were really addressed to Germany. The task of German policy was now to find and utilize an occasion for negotiations. As every new German offer to the Allies could be interpreted as a sign of weakness, this was difficult. Feelers for an understanding, however, from both France and Belgium were not lacking. Direct negotiations with the French Government were, of course, hardly possible, owing to the stubbornness of Poincaré. For a long time the German Government was undecided as to whether it should take the initiative for new negotiations. It quietly elaborated the reparation plan which had been held in readiness for the Conference in Paris, in January, and tried to find out, through Swiss and Belgian channels, whether an understanding on the basis of these new German proposals was possible, and whether the Belgian Government would approach France in connexion with them. Belgium did not dare to do so, but recommended Germany to communicate with the French Government direct.

On the whole, the outlook for a settlement of the conflict was not bad. Loucheur was working for a settlement. He went to London early in April, visited, among others, Lloyd George, and launched in *The Daily Telegraph* a reparation plan of his own. Poincaré, however, who had first permitted the journey, lost no

time in disavowing this attempt to bring the parties together. He likewise succeeded in thwarting the preparation of a Delacroix-Barthou reparation plan. The suggestion for this plan had emanated from the Belgian Government, and Poincaré had expressed his approval of the suggestion to Prime Minister Theunis when they met in Paris on 13th April. All this intriguing did not improve the relations between the Allies. Even in France dissatisfaction with the sterility of Poincaré's policy was visibly growing. The German Government, however, was unable to strike the right course in those critical days. Only when Lord Curzon, on 20th April, made a speech in the British Parliament which could only be interpreted as an invitation to Germany to make new reparation proposals with guarantees did Berlin nerve itself to take the difficult decision.

CHAPTER XXIV

UNSUCCESSFUL GERMAN OFFERS: UNSUCCESSFUL BRITISH MEDIATION

On 2nd May 1923 the German Government addressed a note with a new offer to the principal Allied Powers, and to the Government of the United States of America. The result was fatal.

In order to understand the offer a knowledge of the history of its development is necessary. It was intended to offer 30 milliard gold marks as Germany's total payments under the Treaty of Versailles, to be effected by way of several international loans and by deliveries in kind. A large loan of 20 milliard gold marks was to be issued at once, if possible. The interest on the loan for the first four years was for the present to be paid out of the principal in order to afford Germany a respite from cash payments. An impartial court of arbitration was to decide on the payment of the interest so deferred and on the issue of the subsequent loans. In the event of the Allies finding the offer too low a committee of international experts was to determine Germany's capacity to pay, in accordance with the suggestion made by Mr Hughes, the American Secretary of State, in a speech delivered at New Haven on 29th December 1922. The following guarantees were contemplated:

1. For deliveries in kind, long-term contracts of delivery by the German industries;
2. For cash payments, a general mortgage on the German Government railways, which were to become an independent economic body, also certain revenues of the Reich, such as customs and the tobacco tax and alcohol.

In the deliberations of the Cuno Cabinet this simple and definite plan was strangely disfigured and diluted to meet the misgivings stubbornly voiced by several ministers as to its effect on internal politics. The provision for principal and interest was expressed with so many restrictive clauses that the real value of the 30 milliards offered seemed much less. The lien on the railroads and the pledge of certain Reich revenues disappeared from the draft of the offer, instead of which, the Government declared in general terms its

readiness to furnish special guarantees to be agreed upon in negotiations with the international loan syndicate and the Reparation Commission. The Government further offered to enlist, by the enactment of the necessary laws, the entire German economy for the security of the loans. The Hughes proposal to have Germany's capacity determined by international experts was only timidly referred to.

The very opening of the German note sharply emphasized the fact that passive resistance would continue until the evacuation of the territory occupied outside the terms of the Treaty of Versailles, and until the restoration of conditions in the Rhineland in accordance with the Treaty. And at the end it was repeated: the starting-point of negotiations must be the prompt restoration of the *status quo ante*, which should include the liberation of German prisoners and the return of the banished to their homes and positions.

To meet the French demand for political security the note further declared that the German Government was then, as always, ready to enter into any agreement designed to secure peace on the basis of reciprocity, and particularly an agreement for the settlement of controversies between France and Germany by arbitration.

Finally, the offer was made contingent upon the stabilization of the currency and German equality in international commerce. These last conditions had formed part of every previous German offer and were sufficiently well known.

The entire German note, in almost every word, was a compromise between external necessities and internal considerations. It was given its final form only after endless deliberations; and then it was made public with nervous and needless haste. The Finance Minister, Hermes, who was ill at the time, raised serious objections at the last hour against both the contents and the form of the note, but his objections did not prevail.

The offer created surprise even within Germany; abroad it was everywhere rejected as useless. France and Belgium momentarily forgot their differences over the Ruhr question and sent their joint reply as early as 6th May, after a further Conference in Brussels. This reply was evidently Poincaré's own composition. He treated the German offer in the style of his weekly Sunday sermons, with the same scornful hatred of which, in all his dealings with Germany,

he disclosed such a perfect command. To him the German reply from beginning to end was nothing but "a thinly veiled expression of systematic opposition to the Treaty of Versailles," to which Germany was committed by her signature. The declaration that Germany would continue the passive resistance was met by Poincaré with the answer that the resistance did not originate with the people, but that the German Government itself had organized bloody encounters, attacks on the French garrison, acts of sabotage and common crimes in the Ruhr District.

The French and Belgian Governments now officially announced that they would consider no German offer as long as the resistance in the Ruhr District continued, and that they would evacuate the newly occupied territories only as and when Germany discharged her reparation payments.

The rejection of the German offer on 13th May by Britain and Italy was courteous in form, but very positive in terms. Both Governments expressed keen disappointment at the form and substance of the German proposals: the amount of the offer was unsatisfactory and the guarantees were too vague.

The offer—which had been decided upon by the German Government after so much delay and hesitation—thus proved a complete failure. It intensified the external political conflict, reunited the dissenting Allies and presented Poincaré with the slogan that Germany must submit by discontinuing passive resistance before negotiations could be started. The Cuno Cabinet was thus at the end of its tether; after its solemn declarations it could not abandon passive resistance, even though it led to ruin.

The position of Germany now became desperate. The complete isolation of the occupied territory by passport and customs barriers intensified the daily growing economic distress. The depreciation of the mark continued at an alarming rate, despite all the efforts of the Reichsbank to support it, whilst the price of commodities and rates of wages rose with equal rapidity to dizzy heights.

But Germany's impending collapse was becoming a source of grave apprehension to the Allies themselves. While Poincaré, with sullen determination, aimed unswervingly at the submission of Germany, trying in the meantime to extort as much money and deliveries as possible from the occupied territory, the Belgian

Government for some time had been endeavouring to bring the Ruhr adventure to a reasonable conclusion. Since the drafting of a Franco-Belgian plan of reparation was, as previously stated, systematically thwarted by Poincaré, the Belgian Government had a plan prepared independently, which has become known under the title of "The Belgian Notes." These notes did not attempt to fix the total liability of Germany for reparation, but to estimate the amounts which might be made available for reparation annually from certain specified revenues of the Reich. According to the notes there would be available:

		Gold Marks
1. From the German railroads, to be leased to an operating company		1,000,000,000
2. From taxes on the consumption of—		
Tobacco	450,000,000	
Beer	200,000,000	
Alcohol	600,000,000	
Sugar	130,000,000	
Salt	70,000,000	
Sundries	80,000,000	
		1,530,000,000
3. From deliveries of coal		340,000,000
	Total per annum	2,870,000,000

The notes further included in their estimate a tax payable for reparation of 25 per cent. of the profits of German industrial and commercial enterprises. The yield of this tax from corporations alone was esimated at 250,000,000 gold marks. Despite all these payments, according to the authors the budget of the Reich could easily be kept in balance.

"The Belgian Notes" were transmitted to the French Government on 9th June 1923.

In Britain Bonar Law had in the meanwhile withdrawn from the Government on account of ill health, and had been succeeded by Baldwin. As a result the attitude of Britain in the reparation question became more active. When the German Government, completely at a loss how to take up the broken threads of inter-

national negotiation after the fiasco of its note of 2nd May, failed to find the proper way of elucidating its misunderstood reparation plan, the German memorandum of 7th June 1923 took shape under British influence. This memorandum, which was transmitted to the Allies and to the United States of America by identic notes, is short and clear. With a precision which was welcome, it supplemented the German note of 2nd May by the offer of definite guarantees for reparation. It proposed that the railroads of the Reich should become independent and issue first mortgage bonds on the property of the railways to the amount of 10 milliard gold marks, bearing interest at the rate of 5 per cent. from 1st July 1927. Thus an annual payment of 500,000,000 was secured by the railroads. The same amount was to be provided, beginning 1st July 1927, by a first mortgage on the entire real property of German industry, banks, commerce, transport and agriculture. Additional security was offered by customs receipts on articles of consumption and the taxes on tobacco, beer and sugar, as well as the revenues from the alcohol monopoly. The income from these duties and taxes was reported to have been 800,000,000 marks for the year preceding the war. The memorandum proposed that more detailed discussions of Germany's capacity to pay should be reserved for oral negotiation, and repeated the request that a conference should be called for that purpose.

Since the German note of 2nd May, Poincaré, faithfully supported by a submissive Paris Press, had obstinately taken the stand that, before the cessation of the passive resistance, *reparation must not be discussed, even between the Allies*. Shortly before the second German offer of 7th June, however, he was compelled to yield to Anglo-Belgian pressure and to agree to a further personal discussion with Theunis at Brussels. The result was, as usual, publicly announced to be that the Belgian and French Governments were in complete accord regarding the handling of the Ruhr question, and maintained their former decisions without qualification. As a matter of fact the difference between the French and Belgian aims had become more pronounced in Brussels. Belgium considered the occupation of the Ruhr only as a means to an end, designed to bring about a solution of the reparation question by pressure on Germany, after which the Ruhr District would be liberated. Poincaré

also wanted to force Germany into submission, but thereafter to retain the Rhine and the Ruhr and develop the system of their economic exploitation through Allied organs. From his point of view, therefore, negotiations regarding reparations were inopportune at the time. All the same, Theunis did at least obtain Poincaré's consent in Brussels to the transmission of "The Belgian Notes" to Great Britain and to the resumption of discussions between the Allies.

The German memorandum of 7th June acted, of course, like a red rag on Poincaré. On the very same day he instructed his ambassadors in London, Rome and Brussels to announce that the German note was wholly unacceptable. In the first place, it contained no engagement to cease passive resistance; secondly, it offered no definite amount; thirdly, it aimed at displacing the Reparation Commission in favour of international experts and a conference; and fourthly, it mentioned only theoretical guarantees, which were not to be turned over to the creditors, and offered no security. Poincaré, however, was induced by Belgium and England to refrain from making an immediate reply to Germany and to consider the necessary steps with the Allies. But at heart he remained his old self. In a note of 10th June he notified London and Brussels that Germany must first be compelled to cease her passive resistance before any reparation programme could be prepared, and then Germany would have to resign certain sources of revenue to the Allies. His list of demands was as follows:

(1) the railroads on the left bank of the Rhine were to be transferred to a company in which France, Belgium and England and, possibly, the inhabitants of the Rhineland should participate;

(2) the big German industrials must transfer to the Reich certain coal mines in the Ruhr District, in order that they might likewise be operated by an Interallied company;

(3) deliveries in kind were to be resumed in specified quantities;

(4) customs duties were to be collected in gold and handed over to the Allies;

(5) an export tax of 26 per cent. in foreign currency was to be levied on the large German associations of producers and transferred to the Allies;

(6) in the occupied territory the customs duties and the export tax were to be collected by the Allies themselves;

(7) the Ruhr District was to be evacuated only in proportion as Germany made her payments for reparations.

The British Government was now in a difficult position. Now, as before, it firmly maintained that the whole Ruhr Occupation was a violation of the Treaty, but having permitted it without protest it was compelled to come to terms with the facts. To use force against France was out of the question. An open rupture with France would have indefinitely delayed the adjustment of European affairs. Britain was therefore compelled to make amicable progress with Poincaré in an endeavour to end the German resistance in a way that would be tolerable for Germany and promote the solution of the reparation problem. The British Government therefore did not, in principle, decline the French suggestion that it should ask Germany, in the name of the Allies, to cease her passive resistance. It requested the French Government, on 13th June, for further information as to the scope of the French demands, and wanted to know, above all, what Poincaré understood by the cessation of passive resistance. At the same time it indicated its own misgivings regarding the French demands. To this Poincaré, on 29th June, sent a reply which deserves a special place in the history of reparations. He passed the following judgment on Germany:

"England has an entirely erroneous conception of Germany. One cannot deal with Germany on terms of equality and one must not expect Germany to live up to a voluntary agreement. Germany has always attempted to evade her obligations, because until now she has not been convinced of her defeat. France has learned by sad experience that Germany as a nation will keep her word only under the pressure of necessity, and only when she realizes that she is dealing with a superior Power, and this she has never realized since 1919. The Allies have never obtained anything from Germany except when they were united and have threatened to apply force. After the Conference at Spa, Germany, under the threat of the occupation of the Ruhr, made normal deliveries of coal for some months, but reduced them as soon as she thought the danger of an invasion had passed. In May 1921 Germany accepted the London Schedule of Payments only under Allied threats. But since, after payment

of the first milliard, the economic sanctions were removed Germany has not ceased to agitate for a moratorium and the reduction of her debt. To bring this state of things to an end, Belgium and France marched into the Ruhr District. If England now acts as mediator, Germany will surely proclaim that she was the stronger and that she forced her will upon the Allies. She will keep her future promises no better than her past ones. Germany must first learn that she is really vanquished. England's fear that the occupation of the Ruhr would bring about Germany's complete ruin is groundless; only the façade has been destroyed, because Germany has deliberately annihilated her credit and her currency. The whole world knows that the Germans systematically keep the equivalent of their exports abroad in foreign exchange, that the taxes—for the benefit of big industry with its avaricious and grasping interests—are not properly collected, that the collapse of the mark stimulates German exports and cancels all internal German debts, whilst the middle-class *rentier* disappears and is forced to become an active producer; that all profits from agriculture, commerce and industry are invested in real values and increase German capital. If Germany really wishes, she can readily balance her expenses and her income, and with no debts except reparation will then be the least burdened and richest of all the countries of the world.

"As Germany will do nothing except under compulsion, compulsion must continue, and be carried through without weakness. France will, therefore, have nothing to do with measures which, on the pretext that passive resistance has been abandoned, are intended to lessen the pressure of the occupation. The pledge must not be released until Germany has met all her obligations. Above all, the pressure must fall on German industry, as the heart of the resistance and an ever-present menace to French and Belgian industries. The sources of revenue created by the exploitation of the occupied territory must be retained permanently. France can begin the payment of her own war debts only when the devastated regions have been restored and when the burden of reconstruction has disappeared from her budget."

In a note accompanying his reply to the British Government Poincaré drew special attention to the fact that England herself had formerly consented to, and participated in, the occupation of

additional German territory. To the specific points of the British questionnaire of 13th June he made no answer.

With this fanatical outburst of Poincaré no progress was possible in reparation. The answer of Belgium to the British note of 13th June was also a disappointment. The British Government therefore decided itself to propose the draft of a reply of the Allies to Germany. In his note to France and Belgium of 20th July Lord Curzon stated that in the opinion of Great Britain and Italy the German proposals of 7th June deserved careful consideration. The international situation was becoming daily more acute. The occupation of the Ruhr, whether justified or not in its conception, had failed to produce the desired effect. The steady decline of the German currency rendered it impracticable for Germany to meet her liabilities under the London Schedule of Payments. Something had to be done to restore the economic life of Germany. If passive resistance was the main obstacle, Britain was prepared to propose its abandonment to the German Government. No success, however, could be expected unless Germany's capacity to pay was examined and the Ruhr restored to that condition which would enable it again to become an area of fruitful production. The British Government therefore recommended:

(1) abandonment of the policy of passive resistance;
(2) resumption of the civil administration of the Ruhr District and its progressive evacuation;
(3) the setting up of a body of impartial experts charged with the duty of advising the Allies and the Reparation Commission as to Germany's capacity to pay and as to the mode of payment to be prescribed, the co-operation of an American expert and the hearing of German experts;
(4) expert advice to the Reparation Commission as to the economic securities and guarantees to be pledged by Germany to the Allies;
(5) early Interallied discussions regarding a comprehensive plan for a general and final settlement of reparation;
(6) evacuation of all German territory occupied outside of the limits set by the Treaty of Versailles as soon as the economic guarantees had been put into effective operation.

A draft of the reply to the German Government was attached

to the British note of 20th July. Out of caution it was couched in very general terms, in order to cover up as far as possible the disagreement between the Allies. Britain encouraged Germany to continue on the road recently entered upon, but made the abandonment of passive resistance an absolute condition for any advance by the Allies, and emphasized the fact that provision would have to be made, not only for guarantees, but also for some form of international control over German finances.

Placed between France and Great Britain, Belgium was in a cleft stick. She would have been glad to see an end to the unbearable conditions in the Ruhr District, but could not dissociate herself from France, to whom she had lately tied herself still more by the acceptance of a French loan for the support of the Belgian franc. It required the most convulsive efforts on the part of Belgium so to tack between her big Allies as to avoid collision on either side.

The Belgian and French replies to the British proposal were presented in London simultaneously on 30th July. Belgium laid stress on the fact that the German debt could be reduced only if either the Interallied debts were cancelled or the devastated regions given a priority in reparation. In all other respects Belgium was ready to consider the British ideas regarding reparation.

The reply of France, however, as always, displayed the stiff-necked attitude of the unyielding creditor :

" An eye for an eye, a tooth for a tooth. In strict accordance with the precedent established by Germany in 1871, the Ruhr District will be released only when Germany pays. The Reich must be brought to such a state of distress that it will prefer the execution of the Treaty of Versailles to the conditions created by the occupation. German resistance must cease unconditionally, without any compensation. Germany's capacity to pay cannot be established at all in presence of the present confusion in her economy. Furthermore it is absurd to fix it definitely, as it is continually changing. The German Government will never recognize any amount as just and reasonable, and, if it does, it will deny it on the following day. In 1871 nobody in the world cared whether France considered the Treaty of Frankfort just and possible of execution. And what about the investigation of Germany's capacity to pay by impartial experts? What does impartial mean? Who has to select the experts? What

will be their relation to the Reparation Commission? Even Lloyd George, in January 1921, rejected the recommendations of the experts which were assembled at Brussels, and declared that he attached no value to them. What is to be done in the Ruhr District after the abandonment of passive resistance cannot be decided now; it depends entirely on the attitude of the Reich and the German people."

Lord Curzon did not conceal his keen disappointment with the Belgian and even more with the French reply. He bitterly resented the fact that Poincaré did not devote a single word to the British draft of a reply to Germany. On 2nd August he announced in the House of Lords the publication in full of the notes exchanged between the Allies, in order to make known to the world the dimensions of the problem and the urgency of its solution.

In subsequent notes to the British Government, the Belgian Government endeavoured to explain its position; it proposed an oral discussion of reparation between the Allied ministers, on the basis of "The Belgian Notes." The French Government maintained silence.

On 11th August Lord Curzon addressed a further note to France and Belgium, in which he once more discussed the whole problem in all its aspects, and clearly analysed, from the English point of view, the various issues between the Allies. He declined to purchase the consent of France and Belgium to an investigation of Germany's capacity to pay by granting them financial advantages at Great Britain's expense. The devastated areas had no just claim to priority over other war damages, such as British interests had suffered by the destruction of ships.

The Reparation Commission in its present composition, without American participation—this is explicitly stated in the British note—had become in practice an instrument of Franco-Belgian policy alone. The impartial experts should not be selected from the Allied countries alone, but should include representatives from the United States, from neutral countries and from Germany. The Reparation Commission as well as the principal Allied Powers had repeatedly established the fact that it had been impossible for the German Government to fulfil certain obligations forced upon it by the Treaty.

The highest legal authorities in Great Britain had advised the British Government that Germany's juridical objections to the occupation of the Ruhr were well founded. The British Government had not on former occasions employed the threat of the Ruhr Occupation on the ground that the reparation clauses had been violated; it had rather employed the threat in the same way as it might have threatened war. But even the threat of war could be of no avail, because Germany's will to pay, on which pressure was to be brought, had no significance when her capacity to pay had been annihilated through the Ruhr Occupation. France after the war of 1870-1871 had to pay only 4 milliard gold marks. The claims for reparation arising from the World War were thirty-three times as great. A parallel with 1871 could not be drawn for the further reason that France, thanks to her credit, had then had no difficulty in obtaining the necessary loans, while it was wholly impossible for Germany to obtain loans abroad.

Great Britain again declared her readiness to reduce her claims against the Allies and against Germany to 14·2 milliard gold marks —an amount which represented the capital value of the debt of Great Britain to the United States. Even of that amount Britain would remit to the Allies whatever she received from Germany towards it.

The methods of the French and Belgian Governments of collecting reparation were doomed to failure because, in spite of all the seizures made in the Ruhr District at enormous cost, the proceeds were less than in the preceding year. Things might finally go so far as to force Great Britain to separate action in the interest of an early settlement of reparation.

Never before had the deep rent between Great Britain and France been exposed to such a sharp light as in this note of 11th August, and never had the two Allies publicly told each other such serious truths as in this whole memorable exchange of notes. It affords a deeper insight into the difficulties of the reparation problem and into the difference in the attitude of mind of the two countries than long treatises. It throws a glaring light on the development of events which had heretofore remained more or less in the dark. I have therefore thought it necessary faithfully to reproduce here the most important and interesting passages of that exchange of notes.

Poincaré replied, on 20th August, with a note which in explicitness, frankness and asperity leaves nothing to be desired. As a clever attorney, he proved that Lloyd George had threatened and applied the occupation of additional German territory just as a means of pressure to extract reparation. He further endeavoured to make it appear that Germany had persistently evaded payment for reparation and was herself responsible for the collapse of her currency. As one justification for the French decision to remain in the Ruhr District until Germany had paid her entire debt he stated that otherwise the remark made by Lloyd George at the London Conference on 3rd March 1921 would come true: "The victors would have to pay the cost of defeat and the vanquished would reap the fruits of victory."

This political brief of Poincaré, with all its dialectical skill, again discloses an utter lack of economic understanding. With the logic of juridical formalism it obstinately clings to the demand which Poincaré steadily proclaimed: "*The Treaty of Versailles must be executed.*"

This ended the very instructive, but practically useless, exchange of notes between the Allies in the summer of 1923. The efforts of the British Government to re-establish unity of action between the Allies in the reparation question had failed. Germany received no reply whatever to her note of 7th June, in which, on the advice of Great Britain, she had made far-reaching offers. Poincaré remained victorious all along the line.

CHAPTER XXV

THE CESSATION OF PASSIVE RESISTANCE

In the meantime the decay of the currency and the economic life of Germany spread disastrously, as is best illustrated by the fluctuations of foreign exchange. The official prices of the dollar on the Berlin Exchange were:

Middle of June	100,000 marks
Middle of July . . .	200,000 ,,
8th August	5,000,000 ,,
Middle of September . .	100,000,000 ,,
9th October, more than . .	1,000,000,000,000 ,,

There was no stopping this fall: the German mark was condemned to become absolutely worthless. Nevertheless, the Government and the Reichsbank continued their vain efforts to erect a dam against its destruction. As early as June 1923 everybody had lost belief in the efficacy of these efforts to support it. The maintenance of the occupied territory, which was paid for almost entirely by the Reich, swallowed up amounts which, stated in paper marks, approached infinity. The operating deficits of the Reich's undertakings, particularly of the railroads, increased in the same manner. Notwithstanding all new tax ordinances the revenues of the Reich covered only a dwindling fraction of its expenditure. Every week, and finally almost every day, the salaries and wages in public and private enterprises had to be increased. The printing presses had long been unable to meet the demand for circulation by the issue of new bank-notes. Industry, agriculture and trade finally refused to continue to sell any of their goods for paper marks. This brought on disturbances and sanguinary collisions. The spectre of a general famine loomed over the cities.

All the efforts of the Government to put an end to the wholesale depreciation of the mark by means of more rigid exchange regulations remained without effect. It was finally decided to issue new and stable instruments of currency to circulate side by side with the worthless paper mark. By a decree of 14th August a gold loan of 500,000,000 gold marks was created, the coupons of which

were denominated in dollars and fractions of a dollar, and were put into circulation as legal tender. The Government went further and, on 25th August, made a forced levy of foreign exchange, which up to 27th December brought in 137,000,000 gold marks.

By the end of September 1923 the Reichsbank had lost more than 550,000,000 gold marks from its gold reserve, which on 15th April still exceeded 1,000,000,000 gold marks. More than 100,000,000 had been disbursed for the redemption of the last two Belgian Treasury notes, which matured on 15th May and 15th June respectively; 450,000,000 gold marks had been swallowed by the efforts—as obstinate as they were unsuccessful—to support the mark.

To remedy the alarming scarcity of circulation the Government permitted the issue of emergency money, both in paper money and also on a gold basis. The total amount of authorized and unauthorized issues of emergency money has been estimated at approximately 200 trillion paper marks, and the total issue of the emergency currency on a gold basis at about 200,000,000 gold marks. The Government railways likewise issued at the same time about 114 trillion paper marks and 150,000,000 gold marks as emergency railway currency. Finally, a number of German states and Prussian provinces issued gold loans to an amount of about 50,000,000 gold marks, which also served as a circulating medium.

The public exasperation over the complete failure of its foreign policy, together with the aggravation of conditions in the Reich, brought about the fall of the Cuno Cabinet on 12th August. A new Cabinet under Stresemann gained the support of the Social Democrats, who nominated Dr Hilferding to the difficult and thankless post of Minister of Finance. In order to stop financial mismanagement, Dr Hilferding endeavoured immediately to put into force the policy which he had long advocated of a speedy return to gold. This, however, involved not only the issue of a gold loan and a gold currency, but also the abandonment of the Reichsbank's fatal practice of continuing to grant paper credits to trade and industry. Above all, the purposeless waste of money in the occupied territory had to be stopped if the Reich was to be saved from economic chaos. But if financial support of the occupied territory at the expense of the Reich came to an end, so did passive resistance.

It was very difficult for the German Government to admit defeat in this struggle, but necessity proved stronger than pride. After the Chancellor, Stresemann, had publicly admitted that passive resistance had failed, the Government of the Reich officially announced, on 26th September, that resistance had been abandoned—adding, of course, that this did not signify surrender to France.

Great was the hope that this step would lead to negotiations with the Allies, and equally great was the disappointment. The diplomatic attempts of the new Government at least to alleviate conditions in the occupied territory were unsuccessful. France agreed to nothing—neither to negotiations, nor to the release of political prisoners nor the return of those expelled from the occupied territory. Poincaré declared he would first have to be convinced that passive resistance was really at an end.

Serious political disorders now broke out in Germany. Bavaria rose in open revolt against the Government of the Reich. Armed bands, under Ludendorff and Hitler, attempted to promote a nationalist counter-revolution. This immediately led to Communist disturbances in Saxony and Thuringia—which were soon subdued, however, with the aid of the Reichswehr. On 9th November a revolt broke out in Munich which, thanks to the prompt action of the Reichswehr, ended as early as the next day with the arrest of Hitler. In the Rhineland, at Aix-la-Chapelle and Cologne, the Separatists proclaimed an independent Rhenish Republic. A similar movement started in the Palatinate and spread rapidly under the protection of the French troops of occupation. But everywhere the loyal population offered resistance to the Separatist minorities, and by the end of the year the revolt was successfully suppressed everywhere. Britain's political disapproval of Separatism was an important factor in this connexion.

In October 1923 the economic collapse of Germany seemed inevitable.

The French Government remained absolutely passive. It did not even renew the demand that Germany should formally declare her submission, but preferred to let matters take their course. At that time an almost universal belief prevailed, especially in America, that Poincaré's sole object was the complete disintegration of Germany. It was evident that with every passing day the prospects

of reparation were diminishing. Hence the conclusion was drawn that France was no longer interested in reparation but in the political dismemberment of Germany, in order to obtain by these radical means the assurance of complete security. Many declared that the breakdown of German resistance had come too suddenly and too soon for Poincaré. He might have preferred to delay this triumph until the time of the French parliamentary elections was closer at hand, for there were several months between the cessation of passive resistance and the French elections, and in the meantime the truth about the Ruhr adventure would inevitably be revealed. If it then appeared that Poincaré's political victory entailed economic and financial disadvantages for France, popular disappointment might easily bring about the fall of the Poincaré Cabinet.

I do not believe that any such deep and definite plans are to be looked for behind Poincaré's policy. His strength lay in his stubborn persistence in ideas and decisions once accepted. He was great only in negation. He was afraid to take any definite decision after the German defeat because, under the changed conditions, he was completely at sea. For the time being he was enjoying the rôle of the victorious dictator. He hesitated, moreover, to restore the further conduct of reparation matters to the Reparation Commission, the duly constituted authority, as he would have to reckon with the opposition of Great Britain, and possibly with objections from Italy and Belgium. Thus the situation on the Rhine and the Ruhr remained for a time unchanged.

These conditions made it impossible for the Stresemann Cabinet to continue, for in abandoning passive resistance its precise object had been to restore bearable conditions in Germany's economic life. The Cabinet resigned on 3rd October. The Socialist ministers retired; Dr Luther became Minister of Finance in place of Dr Hilferding. Stresemann, with a rump Cabinet, carried on the business of government as a dictatorship until 23rd November. A new Cabinet was then formed from the centre parties, with Marx as Chancellor, Stresemann as Foreign Minister and Luther as Minister of Finance.

CHAPTER XXVI

THE REFORM OF THE GERMAN CURRENCY AND OF THE BUDGET: THE MICUM AGREEMENTS

In the midst of all these disturbances a radical reform of the currency and finances was accomplished. On 15th October 1923 an ordinance creating the German Rentenbank was issued. It put an end to the paper-money system of the Reich. The Reichsbank was relieved of the care for the finances of the Reich and was made entirely independent. It was prohibited from further discounting Reich Treasury bills. The total indebtedness of the Reich to the Reichsbank was liquidated by means of a non-interest-bearing loan of the Rentenbank to the Reich of 300,000,000 rentenmarks. Such deficits in the budget of the Reich as would arise until revenue and expenditure were balanced were to be paid by the Reich out of interest-bearing credits from the Rentenbank; these credits, including the non-interest-bearing loan of 300,000,000, were not to exceed a total of 1,200,000,000 rentenmarks.

The introduction of the rentenmark was a strange experiment. The paper-money system had to be abandoned because, with the destruction of the mark, it had been carried *ad absurdum*. It was desired to return to a gold basis, but the necessary gold reserve was lacking and Germany no longer enjoyed any credit at home or abroad. Both experts and laymen in Germany had been struggling with this problem for some time past. There were several projects for a gold note bank, with the currency either on a strict gold basis or with a so-called "gold-rimmed" currency. The plan of the Rentenbank was conceived by Helfferich. As early as August 1923 he submitted to Hermes, the Finance Minister in the Cuno Cabinet, a complete draft, which, with only a few changes, became law a few months later. The only fundamental difference between the Rentenbank law and the plan of Helfferich is that he did not base the unit of the currency on the gold mark, but on the value of one pound of rye. At the very first discussions at the Ministry of Finance he was told that the price of rye was not a suitable basis for a currency, for the reason that it was subject to material fluctuations even in the course of a single year. Helfferich was well aware that theoretically

the gold mark was the only correct basis, but with the rye mark he expected to gain the confidence of the agricultural interests in the new currency, since the conception of a gold mark was lost upon the countryside and the gold itself was lacking, while rye was the principal product of German agriculture. The main object of the plan of Helfferich was to furnish a means of payment during a period of transition against which the farmers would sell their produce. Helfferich, of course, understood that the rye currency could only be a step towards the gold basis.

His scheme of the Rentenbank is the conception of a mastermind. The producing factors of Germany—agriculture, industry, trade and commerce, including the banks—were charged with an indebtedness of 3,200,000,000 gold marks, being 4 per cent. of their total net assets, on the basis of their value as fixed for the military levy of 1913. On real estate the charge consisted in a first mortgage. Where there was not sufficient real estate an obligation of the enterprise took the place of the mortgage. The debt was to bear interest at the rate of 6 per cent. per annum. Interest and principal were payable at maturity in rentenmarks, at their gold value. In this way the debtors—that is, the entire German economy —were interested in keeping the rentenmark on a level with the gold mark, for the greater the decline of the rentenmark below the gold mark, the larger the amount the debtor was compelled to pay to the Rentenbank for interest and principal.

The capital of the Rentenbank was 2,400,000,000, the reserve 800,000,000 rentenmarks. Against the capital and reserve stood as an asset the claim of the Rentenbank for 3,200,000,000, one half of this amount being due from agriculture, the other half from industry, trade and commerce. The owners of the mortgaged real estate and the other debtor concerns shared in the capital of the Rentenbank in proportion to their indebtedness. The Rentenbank was authorized to issue 5 per cent. Renten bonds to the extent of its claim against the German economy, in denominations of 500 gold marks or multiples thereof. These Renten bonds were to serve as security for the "Rentenbank notes," to be issued by the Rentenbank as circulation, with the unit of the "rentenmark." The total rentenmark circulation was not to exceed the total amount of all Renten bonds issued. The Rentenbank was obliged to redeem its

Rentenbank notes at any time, on demand, by the delivery of a Renten bond of 500 gold marks for every 500 rentenmarks.

The Rentenbank was to transact banking business only with the Reich, the Reichsbank or the private banks of issue. In addition to the above-mentioned credits in favour of the Reich, the Rentenbank was authorized to extend to the Reichsbank and to the private banks of issue credits up to 1,200,000,000 rentenmarks for the purpose of taking care of the private credit needs of the country. Of the net profits of the Rentenbank, 40 per cent. was to be paid into a sinking fund, 6 per cent. was then allowed to shareholders on their investment, or credited against the interest owed by them. Any balance was to be applied to increasing the sinking fund. The management of the Rentenbank was to be entirely in the hands of the shareholders.

The Rentenbank commenced operations on 15th November 1923, with the issue of the Rentenbank notes. The floating debt of the Reich to the Reichsbank at that time amounted to a sum in excess of 191 trillion paper marks. After 20th November it was possible to maintain the price of the dollar at 4·2 billion paper marks. A short time prior to that date the value of the mark abroad had fallen far below even that figure. By skilful purchases of paper marks in foreign markets, stability was then restored at a price of 4·2 billions for the dollar. Except for some fluctuations in January 1924 this price has been steadily maintained. This automatically solved the problem of establishing a constant relation between the value of the rentenmark and the paper mark, a problem over which the originators of the rentenmark had greatly racked their brains. Henceforth the rentenmark, which was by law equal to a gold mark, maintained a market price of one billion paper marks. That is the price at which the main portion of the floating debt of the Reich to the Reichsbank was redeemed by the payment of a total sum of about 200,000,000 rentenmarks.

Thus the introduction of the rentenmark brought about with one stroke a temporary stability of the mark. The paper mark continued to be legal tender; the rentenmark did not receive that character, although it had to be accepted in payment at all public treasuries. The great success of the rentenmark is all the more notable in that at its inception it met almost consistently with the

pronounced opposition of the experts of the banking world. But agriculture, in particular, stood behind the rentenmark, for it saw in the new currency the work of its political representative Helfferich, and therefore supported it, a convincing proof that the confidence of the people is of the highest importance to the fate of a country's currency.

The introduction of the rentenmark, however, was but one of the necessary pre-requisites for financial and currency reform. It would have met with only a passing success but for the radical changes which took place at the same time in the taxation and expenditure of the Reich.

By decree of the 11th of October all the taxes of the Reich were summarily converted into gold taxes. Three "Tax Emergency Decrees" created new tax measures which deeply affected the economic life of the country. The control of the Finance Minister over the various departments was greatly enlarged. Expenditure was materially reduced, mainly by a very sharp reduction in the number of officials. About one-fourth of the employees of the Reich were dismissed. The railroads and post office were placed entirely on their own resources. They introduced gold tariffs and no longer received any subsidies from the Reich.

Notwithstanding all these measures, it was a bold and dangerous undertaking to re-establish a balanced budget with only the financial support of the Rentenbank. Of the total credit of the Rentenbank to the Reich there remained, after liquidation of the debt of 200,000,000 to the Reichsbank, 1,000,000,000 rentenmarks. Of this amount the Reich disbursed, up to the end of December, 800,000,000, because the revenue at first continued far below the necessary expenditure. By the beginning of January 1924, however, it was possible to balance the Reich's receipts and disbursements without drawing upon the credit with the Rentenbank, and, indeed, actual surpluses were soon attained.

At the end of 1923 the condition of the finances of the Reich was specially strained, because it was necessary, notwithstanding the cessation of passive resistance, to continue the support of the unemployed in the occupied territory even after 15th November. An amount of 100,000,000 rentenmarks, appropriated for the purpose, could naturally cover these expenses only for a short time.

The Government was confronted with the question how economic life in the occupied territories was to be maintained after the cessation of passive resistance. The Rhine and the Ruhr had in the past year lived almost entirely on Government subsidies; industry and commerce were paralysed by the coercive measures of the occupying Powers, and work in the mines and factories was at a standstill.

The abandonment of passive resistance was the inevitable outcome of the general financial distress, but it was pointless if the Reich continued to make remittances to the occupied territories. On the other hand, what was to become of the Rhine and the Ruhr if the support of the Reich was entirely withdrawn?

France declined to negotiate with Germany as to what relations were to be established in the occupied territory. It was thus impossible to resume work in the idle factories unless the German industries came to an understanding with the foreign authorities —in other words, unless they submitted to their conditions. Such a decision would seal the confession of Germany's defeat and repudiate the past defensive policy of the Government. All the sacrifices and sufferings of the people in the struggle in the Ruhr thus became useless. To resume work under the despotic command of the occupying Powers was therefore illogical and impolitic. The world was prepared for Germany in her despair to justify the abandonment of passive resistance in more or less the following terms:

"The unequal fight is finished; we are at the end of our resources. By invading the Ruhr you have destroyed the economic centre of Germany and made the payment of reparation impossible. We are forced to leave the occupied territories to their fate. Do with them as you will and see for yourself how to bring order into the desperate situation at your own expense."

This course, which was undoubtedly the one thing most feared by the occupying Powers, was not pursued. The instinct of self-preservation was stronger than logic and pride. Lack of money and provisions would have driven the workmen in the Rheno-Westphalian industrial districts into revolt, engendered by desperation. No one dared to assume the responsibility for sanguinary disorders and the

ruin of large classes of the community. Industry was for good reasons afraid to surrender its property completely to the occupying Powers. It was, moreover, to be feared that the Separatist movement—which in any case broke out openly—would gain such strength from the general economic catastrophe as to sever the occupied territories politically as well as economically from the Reich for a long time to come.

Such more or less were the grounds on which it was decided, with a sore heart, to choose the painful path of submission to foreign force. As several attempts of the German Government to negotiate with France had been flatly rejected, it was left to the industrials of the occupied territories to settle affairs on their own responsibility. Several enterprises—and first, the Phœnix group, in which Dutch capital was largely interested—negotiated with the French authorities to obtain the release for sale of their sequestrated stocks of iron and steel products. Practically all the heavy industries gradually followed suit. The negotiations were conducted with the *Mission Interalliée de Controle des Usines et des Mines* (Micum). The Micum at first demanded that the German industries should deliver without any compensation what was demanded of them by the occupying Powers. To this the industrials objected, on the ground that they could make deliveries and payments only on the basis of the Treaty of Versailles, and that, accordingly, everything would have to be credited to the German Government on reparation account.

The Berlin Government was kept steadily advised of the progress of these negotiations. It acknowledged its obligation to indemnify the amount of the burdens imposed upon the industries by the Micum, by letters of the Chancellor to the representatives of the heavy industry (the so-called Commission of Six) of 1st and 21st November, on the condition that such deliveries and payments were credited to reparation account. Reimbursement was to be made after the finances of the Reich were put in order, and until then the mines were authorized to withhold, and credit against the deliveries to the Micum, certain taxes due by them. After lengthy debates an agreement between the Micum and the Commission of Six was signed, on 23rd November, which in its essential points was as follows:

1. The mines were to pay to the Micum within six months, for the period up to 1st November 1923, a part of the German tax on coal, not to exceed 15,000,000 dollars.
2. Coal mined prior to 1st October 1923 remained sequestrated by the Allies, the new output belonged to the mines. The mines were to pay a tax of ten francs for every ton of coal sold.
3. The mines were to resume deliveries of coal and coke to the Allies in a certain fixed ratio to their total output. France and Belgium were to receive 18 per cent. of the output of coal and up to 35 per cent. of the coke produced. Deliveries of by-products of coal were regulated by separate agreements.
4. The mines were to furnish gratuitously the coal required by the armies of occupation.
5. The sequestrated stocks of iron and steel products and of by-products of coal were generally to be released in proportion to the payments made of arrears of the coal tax. Their export from the occupied territory, however, was controlled, and subject to duties on a reduced scale.
6. Deliveries of coal, coke and by-products were to be credited to reparation account in accordance with the Treaty of Versailles. Receipts of taxes and fees were deposited, subject to the rights of the Reparation Commission, in the Franco-Belgian "Caisse des Gages." For the present, the cost of the Ruhr Occupation was to be paid out of these funds.
7. The Agreement was to remain in force until 15th April 1924.

The Micum Agreement created world-wide astonishment, on account of its severity. Entirely apart from the cash payments exacted from the mines, it seemed impossible that the Ruhr industry would be able to deliver the quantities of coal demanded for reparation. Altogether the quantities called for (including the deliveries to Italy under the Treaty) amounted to from 30 to 40 per cent. of the total production.

The coal operators themselves declared they had entered into the Agreement only from dire necessity, in order to prevent the

utter collapse of the occupied territory. They intended for this reason to try to live up to their agreement, but feared that they would be at the end of their resources within a few weeks. In any event, it would not be possible to carry out the Agreement until 15th April 1924.

Similar agreements were entered into with the Rhenish lignite industry and the Rhine transport organizations. Promptly following the example of the Micum, the Interallied Rhineland Commission likewise entered into negotiations with the most diverse business groups of the occupied territory. It concluded contracts for the sale and export of chemical products, steel and iron, leather, paper, textile goods, sugar, timber, wine, etc., in which the several industries entered into engagements to pay certain taxes to the occupying Powers.

Thus it happened that the system of productive pledges, which had long been the aim of French policy, was inaugurated through forced agreements with the industries in the occupied territory, at the very time when Germany, entirely dependent on her own resources and without assistance from foreign credits, energetically undertook the dreaded venture of a return to a stable currency and a balanced budget. No one of experience believed in the middle of November 1923 that the German Government would be able to carry on for more than a few weeks the experiment with the rentenmark, which defied all time-honoured theories on currency. Nor did anyone seriously believe that the system of the Micum contracts, which seemed to drain the very life from the Rheno-Westphalian economy, could remain in operation for any length of time.

In both these respects the world was mistaken. The German financial and currency reform, undertaken with so little hope, proved a complete and lasting success. The system of Micum contracts, with the heavy sacrifices it imposed on the German economy, was continued until the final settlement of conditions on the Rhine and Ruhr by the London Agreement of 16th August 1924, and brought in, even after deducting all the costs of occupation and administration, considerable revenue to the Allies.

The fact that Germany succeeded unaided in reorganizing her currency and her budget during a period of the very worst financial and economic distress is a complete answer to the arguments with

which the overwhelming majority of economic experts all over the world had resisted and scotched all former attempts to stabilize the mark. It was quite generally considered perverse and futile to support the mark and to try to balance the budget while the question of reparation remained unsettled.

Now, the reparation problem never looked so black and insoluble as in the fall of 1923, when the rentenmark was introduced and the finances of the Reich were reorganized. Nobody supposed in those days that a Dawes Plan was coming and that the policy of force would soon be ended. The great work of reorganization succeeded though all the economic and financial conditions seemed to be lacking. It succeeded because dire necessity had at last taught the German people that their primary need was a stable currency, if they were to continue to live. This conviction had hitherto been lacking among a large part of the people. On the contrary, numerous German economic interests were quite at ease during the years of the gradual depreciation of the mark, because business was good and profits looked large in paper marks. They saw a grave economic danger in any sudden return to a gold basis or, what was practically the same thing, a stabilization of the paper mark, unless it came quite automatically. With such internal opposition, which reached into the circles of the Government itself, the rescue of the paper mark from complete destruction was impossible. Only when the entire people had come to recognize the destructive effects of inflation was it possible to introduce a stable currency into Germany. And when that was generally realized the difficult task was already half done. Only thus can the miracle of the rentenmark be explained.

One fact should not be overlooked, however: the reform of the German finances and currency remained exposed to grave peril in the course of time unless early assistance was forthcoming from abroad by the settlement of reparation. And this assistance was forthcoming; economic necessity finally triumphed, after so many failures, over political stubbornness.

Credit for the resumption of the negotiations at this crucial moment is due primarily to the Belgian and British delegates and the American "observer" on the Reparation Commission. These men continued, even in the darkest days, their quiet and persistent labours to repair the mistakes and follies of high politics.

PART IV

THE DAWES PLAN

CHAPTER XXVII

THE TASK OF THE EXPERTS

On 20th September 1923 a first short conversation took place between Poincaré and Baldwin at Aix-les-Bains. To the astonished world it was announced that as a result there was no difference of purpose or divergence of principle between the two Governments in reparation matters. This, however, was only an empty phrase; no real discussion had taken place at Aix and nothing had been changed in the situation.

On 30th October the British Government, with reference to the well-known proposal of Hughes, the American Secretary of State, suggested to the United States that the economic capacity of Germany to pay reparation should forthwith be examined by experts, as the only means of re-establishing order in Europe. The Washington Government agreed in principle, and Great Britain then approached France, Belgium and Italy, who also declared their accord in principle. But when the British Government submitted a draft of the invitation to such a conference to be sent to the experts, Poincaré so modified it that only Germany's *present* capacity to pay was to be examined. He also asked that the experts should not consider the question of whether or not the occupation of the Ruhr was legal. Hughes, to whom the French ambassador communicated these demands, declared that the political side of the occupation of the Ruhr did not concern the experts; to that extent he yielded to the French demand, but he declined to limit the economic investigation as to time.

Poincaré entrenched himself behind the legal technicality that under the Treaty of Versailles the investigation of the experts could not embrace a period beyond the year 1930, because even the Reparation Commission could grant a postponement of German payments beyond that date only by a unanimous vote. From this, considered in connexion with other Treaty provisions, it followed that the Reparation Commission could not undertake the examination of Germany's capacity once for all time, but should repeat it from time to time. The American Government declared that an investigation limited in such a way would be useless and harmful, and refused the co-operation of American experts. Now, a conference

without American participation, in view of the disagreement between the Allies, would have been quite futile. The holding of a conference with Great Britain and the other Allies, in face of French opposition, could not be considered by America. Thus in November 1923 the entire plan seemed to be wrecked.

At this juncture the Reparation Commission decided to take up again the plan in a somewhat modified form, to exclude all questions of high politics and to evade Poincaré's legal objections. An opportunity presented itself through an application from the German Government of 24th October, under Art. 234 of the Treaty of Versailles, asking that an investigation of the economic resources of Germany and her capacity to pay should be undertaken and a hearing granted to German representatives. On 2nd November the German Government notified the Reparation Commission officially that owing to its financial distress it was unable for the time being to pay for deliveries in kind.

It will be remembered that, immediately upon the occupation of the Ruhr, Germany had discontinued deliveries to France and Belgium. The subsequent collapse of the mark had brought about on 11th August the suspension of deliveries to all other Allies, as well as of payments under the British Recovery Act. But as, under the Micum contract, deliveries in kind had to be resumed by the industries in the occupied territory, the German Government thought it necessary to notify the Reparation Commission that for the time being it could not pay for these deliveries.

The Reparation Commission granted the German application of 24th October. On 27th November Herr Fischer, as Secretary of State, was given an opportunity to describe, in an impressive address before the Reparation Commission, the gloomy economic and financial conditions prevailing in Germany. The Commission resolved on 30th November to appoint two committees of experts, one committee to consider the means of balancing the German budget and the measures to be taken to stabilize the German currency, and the other to consider the means of estimating the amount of exported capital and of bringing it back to Germany.

The members of the Reparation Commission had agreed upon this formula in order to assure the assent of all interested Powers, and of France in particular. The British proposal that neutral

and German experts should participate in the Committee thereby fell to the ground. In the form presented, the resolution sounded perfectly harmless even to the ears of Poincaré. No word was said about investigating Germany's capacity to pay, the fixing of the reparation debt or the occupation of the Ruhr. What was likely to please Poincaré especially was the proposed investigation into the flight of German capital abroad, a hobby-horse which he had been riding in all his speeches. The tasks assigned to the experts were undoubtedly within the competence of the Commission; at the same time they were formulated in terms which, if liberally interpreted, were sufficiently elastic to permit the accomplishment of the objects which some of the members of the Reparation Commission, primarily Delacroix, had been striving to attain ever since the spring of 1922. It was intended to bring about, by the roundabout means of a report of international experts far removed from political interference, a reasonable settlement of the reparation problem. All previous efforts in this direction had been defeated by Poincaré; now the proposition was submitted to him under a clever disguise.

Whether Poincaré clearly recognized at the time the real significance of the Reparation Commission's resolution is an interesting question. As a matter of fact, Poincaré, notwithstanding the intense hostility which he continually displayed against Germany, had no definite political aim, but wavered continually between a desire for reparation and the wish for the destruction of Germany. In the end he may have been himself alarmed at the mischief he had done by the occupation of the Ruhr, and may thus have welcomed a formula which at least preserved appearances with respect to his past policy. The fact remains that Poincaré approved the resolution of the Reparation Commission. From the other Allies, of course, no difficulties were to be expected.

Through the able intervention of James A. Logan, who, after the retirement of Roland W. Boyden, remained the sole American observer with the Reparation Commission, the consent of the United States for the participation of American experts was secured. The German Government had previously, through its ambassadors in London and Washington, expressed its agreement with the plan of the Reparation Commission.

The economic crisis of Germany was not immediately relieved nor did the political tension show the desired relaxation. In December the German Government presented a demand to the Reparation Commission that priority over reparation claims should be granted to a credit of 70,000,000 dollars to be obtained in America for the import of foodstuffs. Belgium and France objected on the ground that Germany should use for this purpose the capital which had emigrated abroad. The demand therefore was rejected and the American credit failed to materialize. It soon became apparent that in this instance the Reparation Commission had taken the right course. Commodities, especially grain, were on hand in Germany in sufficient quantities. The pressing need was good money with which to purchase the goods, and the rentenmark soon brought material improvement in that respect.

In December 1923 the German Government once more endeavoured by diplomatic means to reach a *modus vivendi* with Belgium and France in the occupied territory. The negotiations had no tangible results. They were especially hampered by the French demand that military control in Germany, which had been interrupted since the invasion of the Ruhr, should be resumed. This the German Government declined, though it resumed regular diplomatic relations with France and Belgium. The post in Paris which had remained vacant since the death of Dr Mayer was filled by Dr von Hoesch, who as chargé d'affaires during the occupation of the Ruhr had displayed diplomatic ability of the highest order in this difficult position.

The First Committee of Experts, appointed for the investigation of the German budget and the German currency, met in Paris on 14th January 1924. It consisted of the following members:

Charles G. Dawes, *Chairman*, America; Owen D. Young, America; Robert M. Kindersley, England; J. C. Stamp, England; J. Parmentier, France; Edgar Allix, France; Alberto Pirelli, Italy; Federico Flora, Italy; E. Francqui, Belgium; Maurice Houtard, Belgium.

The Second Committee, called to investigate the flight of German capital to foreign countries, met in Paris on 21st January. Its members were:

Reginald McKenna, *Chairman*, England; Henry M. Robinson,

America; André Laurent-Atthalin, France; Mario Alberti, Italy; Albert E. Janssen, Belgium.

With the exception of a fortnight passed in Berlin during the first part of February the two committees worked continuously in Paris. On 9th April they simultaneously submitted their reports to the Reparation Commission.

The report of the First Committee became the basis for the settlement of reparation which was reached at the London Conference on 16th August 1924. No admiration is too great for the work which these men accomplished in less than three months. They were called together by the Reparation Commission at a time when the German economy seemed to be collapsing under the pressure of the occupation of the Ruhr. Political relations among the Allies were strained to the breaking-point. All attempts to advance the reparation question by way of negotiations had failed. The Reparation Commission's hope of finding a way out of this desperate situation, with the assistance of the experts, rested on a weak foundation. Yet it was the last resort left in the emergency, and it had to be tried.

With all this in mind, one could but marvel at the cheerful confidence with which the American members of the Committee in particular attacked their task; they were men who were held in high esteem in the United States and of whom much was expected. If they failed they jeopardized their great reputation. But they were confident from the start that they would succeed. Perhaps this very optimism aided them in passing over all difficulties and brought about success; or perhaps the time was ripe when, after many failures, success finally had to come.

But, if all went well, what in the most favourable event could be expected from the work of the experts? No one dared to hope when the Committee met that it would be able to bring about a thorough settlement of the German reparation debt and a reasonable adjustment of the Ruhr conflict. It did not even seem possible to harmonize the different views of the individual members, most of whom had never met before, and whose countries were divided by sharp political and economic conflicts. And if this was accomplished, what then? What would be the practical value of a report, however excellent, on German finances and currency? For, strictly speaking,

the task of the First Committee did not extend beyond the presentation of a report on what was necessary to balance the German budget and to stabilize the currency. The question of the currency, as we have seen, had been answered, as long ago as November 1922, by a committee of prominent international experts, but without producing the slightest practical results. Their terms of reference in no way entitled the experts to touch the heated reparation problem or even to include it in the scope of their investigation. After all that had gone before, it was to be feared that, in a discussion of reparation proper, opinions in the Committee would clash. Possibly a report carefully worded, well sounding, but of no practical value, might be the result. Had not Poincaré proclaimed to the world over and over again that he would never permit the rights of France to be discussed or curtailed by irresponsible international experts? Who would have foreseen that he would now disavow his rigid principles and assent to a report of the experts which repudiated the past reparation policy of France, root and branch? And who could have predicted that his protestations, repeated *ad nauseam*, that France would hold fast to her pledges in the Rhine and Ruhr districts even after Germany's surrender, would by the report of the experts be made an empty phrase? Who could assume, finally, that the Ruhr Occupation, which according to the solemn resolutions of France and Belgium was to be lifted only in proportion to Germany's reparation payments, would shortly come to an end? With conditions then prevailing one could look forward to the report of the experts only with anxious or scornful doubt.

There was, in fact, some perplexity at first in both committees until they found a clear guiding line for the development of their problems.

The task of the Second Committee was comparatively easy. Much had been written about the flight of German capital. Experience and theory were at one in indicating that the amount of German capital in foreign countries could not be definitely ascertained, and could not be brought back to Germany by force. The only difficulty in the task of the Second Committee was to clear away a widespread heresy. In France, and also in America, fantastic figures were circulating regarding the amount of German capital abroad. From these unsupported statements the conclusion

was frequently drawn that the German Government could readily pay at once many millions for reparation if it only made a serious effort to bring back to Germany the capital which had fled.

This argument was exploited, in political addresses and by the Press, in order to demonstrate Germany's bad faith. Of a similar nature were the attacks which Germany's new spirit of enterprise in foreign countries attracted. Above all, offence was taken at the purchases and investments of Hugo Stinnes in Europe and overseas. From the extent of his business energy, which had been favoured by inflation, it was immediately inferred that immense amounts of German capital were available abroad for the purposes of commerce and industry. Quite as misleading was the effect of the opening of numerous offices in foreign countries by German banks and bankers, especially in Holland. Foreign critics omitted to consider that Germany, having lost all its old relations in the Allied countries, was forced to form new connexions for its business broad. For this purpose Holland was particularly well suited, on account of its geographical situation. Another object of unfavourable comment was the regrettable fact that the depreciation of the mark had conjured up a large number of *nouveaux riches*, who scattered their easily acquired wealth with a lavish hand and bad manners, and made themselves especially obnoxious abroad. All these unavoidable incidents of a fevered economy were exploited in order to arraign Germany's bad faith and hidden wealth before the world. That at last a thorough investigation should be made by serious experts in international economic affairs into the question of Germany's foreign assets was therefore to be welcomed.

The McKenna Committee soon reached the conclusion that it was impossible to obtain reliable information on the amount of German capital abroad by direct inquiries among banks and other financial institutions. To give such information would have been in conflict with the banks' own interests and a violation of business secrets. The result would have been incomplete, even if the inquiries had been answered conscientiously, as capital knows many ways of making investments which do not lead through the banks. McKenna therefore devised an ingenious scheme to ascertain indirectly the amount of German capital abroad. Economic literature contains several pre-war estimates of German capital held abroad. These

McKenna made his point of departure. He deducted therefrom all losses suffered by Germany in her foreign investments during and after the war, and added what she had gained in new capital after the war, especially through the sale of marks abroad. On this theoretically correct but—it must be admitted—practically very uncertain basis the work of the Second Committee was constructed.

The task of the First Committee was much more complicated. An understanding had first to be reached if and how far reparation was to be brought into relation to its work. Men less energetic and thorough might have shirked the heavy responsibility, and contented themselves, on a narrow construction of their mission, with laying down general guiding principles as to what Germany should do to balance her budget and produce a surplus for reparation. That is about what happened at the Financial Conference of the League of Nations at Brussels in 1920 and at the Genoa Conference in 1922. Nobody, of course, would have been the wiser for it. If the Committee really wanted to accomplish something, then it had to attack the reparation problem fearlessly, in spite of all its difficulties, and make it the main object of its work. The task of the Committee, therefore, was to be construed as follows:

What can Germany pay for reparation without endangering the balance of her budget and the stability of her currency?

Officially the task could not be put in these words, because the calling of the experts would then have been frustrated by the opposition of the French Government. It was a great achievement of the Committee that it fought its way to such a bold transposal of its task. High credit is due to the French and Belgian delegates for their joining in this evolution, which was in patent opposition to the policy of their Governments as hitherto declared. But there was another obstacle to be avoided.

The amount of reparation to be demanded of Germany had been for years the subject of bitter contention between the Allies. The opinions of the experts also were bound to diverge widely on that point. Whenever in the past the Allies failed to agree on any plan of their own they invariably asked the German Government to indicate what Germany was able to pay annually for reparation. Thus in the end originated all those German offers which were then rejected by the Allies with scorn and anger, and answered with

the notorious sanctions. Everything depended on the experts not resorting to the same expedient. If they did, they would find themselves in a dangerous blind alley. The German Government could not possibly go beyond its last offer of 7th June 1923, which was rejected as insufficient by France and Belgium. In the meantime things had become so much worse in Germany that there was now no basis at all for a new German offer. Fortunately there existed throughout the work of the Committee a close personal contact between the experts and German confidential advisers, so that all these matters could be the subject of friendly discussion. Thus many errors were forestalled and many a wrong turn avoided. *Germany was not asked this time how much she could pay.*

The preliminary work of the two committees in Paris was mainly for the purpose of acquainting the members with each other and of determining a common programme by general discussion. Practical investigation first concentrated on the currency problem. Dr Schacht, the new president of the Reichsbank, was requested to come to Paris. With him the First Committee discussed the currency problem, the position of the Rentenbank and the project of a gold note bank. The Second Committee consulted him regarding the flight of capital.

Whilst no definite results were accomplished in these preliminary discussions in Paris, it became evident that the experts were especially interested in the transfer of the German railroads to a private corporation, a subject that had been treated exhaustively in "The Belgian Notes." This project was doubly important. In the first place, an essential part of reparation should and could be contributed by the railways of the Reich. And, secondly, an international interest in the German railways seemed to offer the only means to induce France to abandon her policy of pledges and thus to effect the economic reunion of the occupied territory with the remainder of Germany. To this end it was essential to convince the French that the guarantee of the German railways, operated by a private corporation, offered a better security than the costly apparatus of military occupation, Micum contracts and other coercive measures in the occupied territory.

Even in Germany it was expected that administration by the Reich would have to be replaced by a private operating company

with foreign participation : only thus could the substitution of the railways for the existing pledges be made palatable to France and Belgium, and such a sacrifice, heavy though it was, would not have been too dear a price for the return of the Rhine and the Ruhr to Germany. We shall see, however, that the transformation of the German railroads was finally accomplished in a manner far more bearable for German national feeling.

At the beginning of February the experts proceeded to Berlin. They entered into communication with the Government authorities concerned, and also tried, by private discussion with representatives of various economic interests, to obtain an insight into German economic conditions.

The Second Committee called on the larger banks for information regarding the movement of German capital abroad, in order to obtain the material necessary for the McKenna scheme.

The First Committee took up a detailed study of the budget for 1924, continuing at the same time the discussions with Dr Schacht regarding the gold note bank.

By a curious conjuncture of circumstances, the Committee, upon its arrival in Berlin, found its own problem already almost solved. With the aid of the rentenmark the German currency had been stabilized for the time on a gold basis. Thanks to the energy of Dr Luther, the Minister of Finance, the German budget had already been balanced. Beginning with January 1924, the current fiscal statements of the Reich showed a surplus of revenue, which in reality was even greater than the figures indicated, for the Reich applied a large proportion of the revenue towards taking up amounts of the German Gold Loan of 1923 constantly offered for sale. The small denominations of this loan were circulating as currency, with the result that after the introduction of the rentenmark and the stabilization of the paper mark the loan depreciated. It was feared that any sales of the Gold Loan at a discount would disturb the newly stabilized currency. The Minister of Finance therefore decided to purchase at par the amounts of the Gold Loan which were offered for sale, and several hundred millions of gold marks were used for this purpose in January and February. The outstanding emergency currency was likewise redeemed. By the end of May 1924 practically the entire Gold Loan of 500,000,000 and

the bulk of the emergency currency, a total of 625,000,000 gold marks, had been redeemed out of the Reich's current revenue. This was an accomplishment which surprised and perplexed the members of the Committee, who thought it irregular that a State which had just emerged from financial collapse should redeem, out of current revenue, a funded debt of 500,000,000 gold marks.

It was but natural that the experts formed during their stay in Berlin a very high opinion of Germany's capacity to pay. What could a country accomplish which, in spite of the loss of all revenue from the occupied territory, adjusted its shattered finances so quickly and commenced at once with the redemption of its debts on a large scale! What must such a wonderland be able to do for reparation when once the political situation had been improved and Germany's economic unity re-established! It was asserted at that time, in all seriousness, that the experts intended to impose upon Germany an annual reparation charge of 4 milliard gold marks.

And yet it became apparent in those very days on what an uncertain basis the German currency still rested. Sudden heavy sales of rentenmarks, said to come from the occupied territory, caused a decline of 20 per cent. in the quotation of the mark abroad. This gave rise to all sort of rumours of disagreement between the First Committee and Dr Schacht over the gold note bank. An adroit public statement by the Committee allayed the danger, and the mark recovered to gold parity.

CHAPTER XXVIII

THE SOLUTION OF THE PROBLEM

With their return to Paris, in the middle of February, the work of the experts began to assume more definite form. The First Committee now attacked its problem in the broadest sense. It proceeded resolutely to prepare its own reparation plan. How the co-operation of the French members of the Committee, and above all the assent of Poincaré to such an extension of the problem, was obtained is a question to which, from the nature of the case, no definite reply is possible. Much credit is due to Seydoux, who in the course of time had regained his former great influence with the French Government.

If we remember how Poincaré had refused over and over again to place reparation in the hands of experts, and how jealously he watched lest any unauthorized person should encroach upon the contractual rights of the French people, we shall fully appreciate the miracle of his sudden change of front.

The fall of the French franc, which took place at the same time, has been suggested in explanation. The English pound sterling, which early in January was quoted in Paris at 85 francs, rose to 120 francs by 9th March. This panicky movement was checked, and succeeded by a sharp reaction, thanks to energetic support carried out with the assistance of an English and an American syndicate under the leadership of J. P. Morgan & Company. It is certain that the foreign bankers, in extending credit to France, imposed the condition that France should take certain steps for the improvement of her finances. It is not correct, however, as has been frequently claimed, that one of the conditions imposed was that France should accept the report of the experts regarding the reparation question.

The continued success of the support of the French franc materially strengthened the position of the French Government. The exploitation of the occupied German territory through the Micum contracts, and the operation of the Franco-Belgian Railroad Régie, too, were now beginning to yield considerable revenue. All in all, Poincaré's position in March 1924 seemed to be stronger

than ever. How is it that this politician, whose strength lay in his obstinate consistency, decided on a change in policy just at the moment when, to all outward appearances, he was at the height of his power? Can he have had enough insight to realize that all his victories would soon turn into defeat if the Conference again dissolved without accomplishing anything and despair spread over Germany and France? Can he have had forebodings as early as March that the French people, who had but reluctantly followed his leadership through thick and thin, had in their hearts long since turned away from the policy of force and were preparing to throw him overboard at the impending elections?

Poincaré put no further obstacles in the way of the experts until the end of their work. French co-operation, of course, could be secured only if the other experts on the Committee went some way to meeting the French views regarding Germany's capacity to pay and the guarantees to be furnished. The Committee was unanimous on the point that Germany could pay reparation only if she regained her economic unity and independence. This principle was irreconcilable with the system of productive pledges. Above all, the German railways, which were to become the most important guarantee for reparation, had to be placed again under a unified administration. The great majority of the Committee, therefore, was of the opinion that the separate administration by the Allies of the Rhine and Ruhr lines would have to be completely abandoned. This was the step to which France could be brought only by degrees, because it involved the question of political security. Until the last moment the French endeavoured to form a separate organization under Allied influence for the operation of the Rhine and Ruhr lines. In this connexion the example of Bavaria, which likewise occupied a special position in the administration of the German railways, was cited.

What finally decided the Committee was a detailed report on the German railroads which had been prepared for the Committee by two prominent authorities, Sir William Acworth of England and M. Gaston Leverve of France. The report stated that, after some years of transition, the railroads of the Reich would yield an annual net revenue of one milliard gold marks, but only provided that the Rhine and Ruhr lines were included in a unified business

management in the form of a company. With this substantial security, the question as to whether or not international capital should be interested in the railways became of minor importance. The negotiations, in which German confidential agents participated, finally crystallized into the following compromise.

The form of a business corporation was retained, but the common capital stock of the company remained with the Reich. On the board of directors one half of the members represented the Reich and one half the reparation creditors. In order that the management of the railways should be more and more imbued with a business spirit, private capital was to participate with preferred stock. The proceeds from the sale of the preferred shares would pay for the capital expenditure of the railways. For the purpose of reparation the railways were charged with a large loan secured by a first mortgage on the entire system. The plan was conditional, moreover, upon the return to the new company of the lines in the occupied territory.

The Committee found further revenue for reparation in the same sources as "The Belgian Notes." In addition to the customs receipts, a number of indirect taxes—namely, the taxes on alcohol, tobacco, beer and sugar—were to be made available for reparation. In this connexion the fundamental question had to be decided whether the necessary internal expenses were first to be met out of the budget and only the surplus remaining from such taxes applied for the purposes of reparation. This was favoured by the British experts, who wanted a uniform budget, comprising as well the requirements of the Reich as reparation. This, however, could only be accomplished if the entire revenue and expenditure of the Reich, in all its departments, were subjected to strict Allied control, and such financial control had been rejected by Germany as unbearable and useless throughout the whole reparation conflict.

The British standpoint was wrecked in the Committee by the opposition of the French and the Belgian members. They would not be satisfied with the surplus revenues only, but demanded the direct attachment of the yield of certain specified taxes; and the Committee so decided. The main part of the revenue remained at the free disposal of the Reich, whilst certain sources of revenue, such as the customs and consumption taxes, were applied in the

first instance to reparation. Interallied control was confined to those receipts.

A further object for reparation was found by the Committee in the tax on railroad traffic, the so-called transport tax. This tax is included in the fares collected from the public, is not therefore obtrusive and does not impose any special new burden on the traffic. The experts believed that the Reich would be able, after a transition period of a year, to dispense with this tax. The transport tax is easily handled and requires no control, as it can be paid by the railways directly into reparation account.

Finally it had to be decided whether or not German economic groups should be called upon to contribute directly to the payment of reparation. The Treaty of Versailles did not give the Allies a right to make such demand, but the idea had been for some time discussed at length, especially in France, where it was popular to claim a participation of the Allies in the profits of the German industries. Two reasons were advanced in support thereof. In the first place it was hoped to secure the influence demanded by the French iron industry over the German coal industries if a part of the capital of the German industry, either in shares or in some other form of participation, was turned over to reparation. Secondly, everyone was repeating that it was only as a state that Germany was impoverished and temporarily insolvent, but that German industry had reaped such profits from the fall of the mark that it was its duty to surrender a part of its gains for reparation.

We have seen that the question of guarantees to be furnished by the German industry had been a feature of former reparation plans. In its last proposal, of 7th June 1923, the German Government itself had offered to enlist, by means of a first mortgage of 10 milliard gold marks, the entire German economy for the guarantee of annual payments of 500,000,000 gold marks. Since then other private proposals had been made which tried to attain the same object through the delivery by the German industries of 30 per cent. of their capital stock. Outside of France the plan was advocated particularly by Arnold Rechberg in Germany and M. Barnich in Belgium.

The experts abandoned the idea of Allied participation in the German industry, without forgoing, however, a direct contribution

by industry toward reparation charges. They always returned to the argument that, through the depreciation of the mark, German industry had virtually become free from debt, and thereby obtained a material advantage in the world's markets over its foreign competitors, burdened as they were with debts payable in gold. To re-establish equal competition German industry should be saddled with a special reparation debt to the extent of its pre-war indebtedness, which amounted to about 5 milliard gold marks. The foremost advocate of the idea was the Italian delegate, Pirelli. The American and British members seconded his proposal from the further consideration that they wished to avoid the criticism that the experts, as representatives of capital, put the entire burden of reparation on the shoulders of the toiling masses, by indirect taxes on consumption and traffic.

German agriculture remained exempt from any direct contribution to reparation. Whilst landed interests had been also relieved from debt by the fall of the mark, the experts were doubtful whether they could be burdened with a part of reparation without injury to German economy as a whole.

To ensure from the start the consent of industry, the Committee brought Dr Buecher, the business manager of the Central Union of German Industries, into confidential discussion, and an agreement in principle was thus reached.

The Committee had now found the various sources of reparation for its plan. There remained, however, the most difficult part of its task—the establishment of the total annual payment to be imposed on Germany. It was necessary, in that respect, to find a compromise between economic possibilities and political demands. That Germany needed a respite, and that during the first years she would be able to pay only on a gradually rising scale, was undeniable, but what should the annual burden be in normal times?

Annuities

The British plan of January 1923 provided a normal annuity of $2\frac{1}{2}$ milliard gold marks, which might be increased after 1933 to $3\frac{1}{3}$ milliard gold marks in case an impartial court of arbitration found this compatible with Germany's capacity to pay. Since then

Germany's resources had been materially impaired by the disastrous occupation of the Ruhr. The British experts therefore advocated a normal annuity of not more than 2 milliard gold marks. Their views, however, did not prevail against the more exacting demands of the French. In the contest which developed regarding the amount of the annuity the opinion of the American delegates turned the scales. Towards the end of March the Americans were inclined to agree to an annual payment of about 3 milliard gold marks. Their line of reasoning was as follows.

"Germany has a wonderful industrial equipment. Her internal public and private debts are virtually cancelled. In practical intelligence she is, on the whole, superior to other nations. After the settlement of reparation Germany will experience a great expansion, which will enable her to surpass all competitors in the world markets. Germany's payments therefore should be in keeping with this economic power. She should bear the same relative burden of taxation as the Allied countries. This is a principle which every right-thinking German accepts as just. If it is applied to a Germany free from internal debts, immense sums will be available for reparation out of the surplus in the German budget. About 3 milliards can be set aside from German economy—in the first instance, of course, in German currency only. Whether this amount can be transferred abroad depends upon the extent of Germany's foreign trade. The possibility of making payments abroad shall be decided by an international committee of financial experts free from political influence. As long as the reparation funds remain in Germany they enrich the German economy, create cheap money and stimulate German commerce and industry. Germany has therefore nothing to fear even from a total annual payment of 3 milliard gold marks."

As soon as I heard of these intentions I went to see Owen D. Young, and explained to him that the establishment of an annuity of 3 milliard gold marks would have a ruinous effect. This was the figure which had haunted us ever since negotiations first started. It was the kernel of the London ultimatum of 5th May 1921, and the principal cause of the collapse of our currency. If the experts agreed upon such a figure, then all the hopes which the Germans had placed in their decision would be destroyed with one stroke,

and awakening confidence would give way to general despair. The German currency would again collapse and the internal political situation become untenable. At heart the American experts were themselves convinced that reparation payments on such a scale were not practicable. If for political reasons they desired to meet the French demands, then it would be better to make use of the "Besserungsschein" as being the lesser evil. It was easier to pay more on a material improvement in the financial and economic conditions than to face at the outset a charge which in the opinion of all experts far exceeded Germany's capacity.

This discussion took place on 20th March 1924. Soon afterwards the experts agreed on a normal annuity of 2½ milliard gold marks, to be derived from the following sources:

1,250,000,000 from customs duties and consumption taxes.
660,000,000 from the railways (5 per cent. interest and 1 per cent. amortization on 11 milliard bonds).
290,000,000 from the transport tax.
300,000,000 from industry (5 per cent. interest and 1 per cent. amortization on 5 milliard bonds).

2,500,000,000

It will be noted that these amounts contain 1 per cent. amortization on 16 milliard bonds of railways and industry; the annuity of 2½ milliards, therefore, includes 160,000,000 for annual repayment of capital.

Through this amortization the charge of 660,000,000 on the railways and 300,000,000 on industry disappears from the annuity after thirty-six years. The question of what then happens to the transport tax and the payments out of the budget has been left in the dark by the experts.

Prosperity Index

The fact that the French experts of the Committee did not insist on the much higher figures previously demanded by France is evidence of their economic insight and the courage of their convictions. But the agreement on 2½ milliards was made possible

only by the introduction of the "Besserungsschein," which fed the imagination of the Allied creditors with some hopes of a later increase in German payments.

Many learned people had cudgelled their brains over the problem of the "Besserungsschein" ever since the Conference of Spa. It had been impossible so far to find a practical and reliable index to the increase in German prosperity, and the whole idea had therefore latterly fallen into the background. It was also widely opposed on principle, in that it left the future reparation burden uncertain, thereby bringing another important element of unrest into the development of the German economy.

But the experts immediately took up the idea again, and carried it through. The index which they instituted, mainly under the influence of Sir Josiah Stamp, is a complicated structure. It is composed of six different factors:

(1) the total of German imports and exports taken together;
(2) the total of budget receipts and expenditure taken together —including those of the States of Prussia, Saxony and Bavaria—after deducting from both sides the amount of the Peace Treaty payments included in the year;
(3) the tonnage of freight carried by the railroads;
(4) the total money value of the consumption of sugar, tobacco, beer and alcohol within Germany;
(5) the total population of Germany;
(6) the *per capita* consumption of coal.

The basic figures of the index for factors 2, 5 and 6 are the averages for the years 1927, 1928 and 1929, and for the other factors the averages for the years 1912, 1913, 1926, 1927, 1928 and 1929. Beginning with the sixth year of the operation of the Dawes Plan—that is, with 1929-1930—the annuities payable out of the budget are to be increased in proportion as the six index figures for any given year show an increase as compared with the base figures of the index. The percentage change for each of the six groups, as compared with the base, shall be separately computed, and an arithmetical average of the six percentage results taken as the index—*i.e.* the percentage which determines the changes in payments out of the budget. During the five years 1929-1930 to 1933-1934 the index figure applies only to 1,250,000,000, or one

half of the normal payments, but commencing with 1934 the index applies to the total normal annual payment of 2,500,000,000. Should the index show in any one year a decrease as compared with the basic figures, then the annual normal payments shall continue to be made, but allowance will be made for the decrease in computing future increases—*i.e.* it must be deducted from any supplementary payments that may accrue in the future.

In practical operation the application of the index may prove even more difficult than appears at first sight. In anticipation of such difficulties the settlement of all details has been left to a committee, to be composed of two German members and two members to be appointed by the Reparation Commission.

The normal annuity may also be changed, apart from the index, should the purchasing power of gold as compared with the year 1928 alter by at least 10 per cent. Such revision may be asked for by the German Government as well as by the Reparation Commission, or any Government represented on the Commission. Failing mutual agreement, a decision shall be given by a committee appointed by the League of Nations. The modified figure thus established shall stand until a claim is made by either party that there has again been a change in the purchasing power of gold of not less than 10 per cent.

Payments other than Reparation

The annuities fixed by the experts are to comprise all amounts for which Germany may be liable to the Allied and Associated Powers on account of the war.

This clear provision of the Plan sweeps away one of the most serious errors of the Treaty of Versailles. What had so far made the fulfilment of the reparation liability impossible was not only the amount of the debt as fixed by the London ultimatum of 5th May 1921, but also the fact that a number of additional payments had to be discharged, the amount of which could not even approximately be estimated. Among these were, in the first place, the direct and indirect costs occasioned by the armies of occupation, through payments, requisitions, billeting, construction of barracks, sequestration of land, etc. Then the clearing offices represented an additional burden, which, despite the large amounts already paid by

Germany, was far from being liquidated. Above all, the claims upon Germany arising from the jurisdiction of the mixed arbitral tribunals defied calculation. In addition, there were the expenses of the numerous commissions established by the Treaty of Versailles for the supervision of Germany. And finally, the separate Treaty of Peace which Germany had concluded with the United States of America, on 25th August 1921, imposed on the German Government the obligation to indemnify American nationals for war damages to be ascertained by an arbitral tribunal.

In all these matters the report of the experts made a welcome change. *Beyond the fixed annuities, which shall be normally 2½ milliard gold marks, there will be no longer any other liabilities arising out of the Treaty of Versailles or the World War.* The experts have therefore provided that all expenses of control and supervision under their own plan of reparation shall also be paid out of the fixed German annuities.

Years of Transition

The annuity of 2½ milliards will be reached only after four years, and until then Germany is granted a certain respite. The much-contested moratorium thus became a reality, though admittedly the moratorium looks very different from what Germany had requested and from what had been proposed by the British plan of January 1923.

Complete relief from reparation for several years was not granted.

This is another compromise between the economic necessities of Germany and those of the Allies. Through the Ruhr Occupation France and Belgium had secured for themselves important deliveries in kind, particularly coal and coke, entirely apart from the profits they derived in cash from the railroads, the forests and the compulsory agreements with the industries. In order to induce France to release her hold on the economic life of the Rhine and Ruhr districts it was necessary to continue deliveries in kind, if only to a limited extent. Even Germany's reparation offers had promised such a concession. But how was the German need of a long period of rest to be reconciled with the continuance of deliveries in kind on an important scale?

The problem of financing deliveries for the first few years gave

the experts much concern. The solution finally suggested by them clearly reveals their dilemma. They found a way out by requiring that reparation payments should be made by the railways and industry at a much quicker rate than by the budget of the Reich. Here we find again the thesis of the Allies that the railways and industry, by reason of their freedom from debt, needed little forbearance and were able to pay from the beginning.

The budget of the Reich itself enjoys a fairly thorough moratorium under the Dawes Plan. For the first two years it is entirely free from reparation payments. In the third year the budget must contribute 110,000,000 gold marks for reparation from the assigned customs and taxes, and in the fourth year 500,000,000 gold marks.

The payments for these two years may be either increased or decreased, by a sum not exceeding 250,000,000 gold marks, depending upon the development of the revenue from the assigned customs and taxes. If the receipts therefrom exceed 1 milliard in the third year (1926-1927) and 1¼ milliard in the fourth year (1927-1928), then one-third of such excess is to be paid as a further contribution to reparation. If the receipts fall short of the amounts stated, then the total contribution shall be diminished by an amount equal to one-third of the deficiency. All these changes, however, must be kept within the limit of 250,000,000 gold marks.

The normal reparation payment from the budget of 1,250,000,000 gold marks begins only with the fifth year.

The railways are, according to the plan of the experts, to pay interest on their reparation debt of 11 milliard gold marks as follows: first year, 3 per cent.; second year, 4 per cent.; third year, 5 per cent.

In the fourth year 1 per cent. is added for amortization, so that from that time on the full payments to be made by the railroads amount to 660,000,000 gold marks per annum.

The industries pay nothing for the first year, and in the second year only one half of the interest—*i.e.* 2½ per cent., or 125,000,000 on their debt of 5 milliards. Beginning with the third year, the industries pay the full interest of 250,000,000 gold marks, and beginning with the fourth year also the 1 per cent. amortization charge, or a total of 300,000,000 gold marks.

The transport tax is left to the Government for the first year. In the second year it is paid to reparation account to the extent of 250,000,000, and from the third year onwards to the extent of 290,000,000. Any excess revenue from the tax belongs to the Reich.

In order to fill the gap which would otherwise result under this schedule of reparation payments in the first year, the experts proposed the issue of a loan of 800,000,000 gold marks, the proceeds of which were to provide the funds required during the first year for deliveries in kind, costs of occupation and other necessary disbursements. This large reparation loan was to be granted Germany from abroad, and interest and amortization to be provided out of the annual German reparation payments. The loan was to be secured by a first lien on the German annuities and therefore to have priority over all Allied claims.

The loan was not intended for purposes of reparation alone but was at the same time to serve to support the German currency. The proceeds were to be paid in gold or foreign exchange into a new Bank of Issue. The latter, on the instruction of the Agent General for Reparation Payments, was to repay the German Government its temporary disbursements for deliveries in kind and other reparation purposes. The entire proceeds of the loan, therefore, were to flow into the German economy in foreign exchange and strengthen the German currency.

In its details the schedule of the transition period was subjected to some changes.

The actual payments by the railways, for example, were limited to 200,000,000 marks in the first year, but heavily increased to make up for it in the second year.

The following Table gives an exact synopsis of the development of reparation payments up to the normal annuity. Payments are due:

In the first year—	*Million Gold Marks*
From railways	200
From reparation loan	800
	1000

	Million Gold Marks
In the second year—	
From railways	595
From transport tax	250
From industries	125
From sale of preference shares of the railway company	250
	1220
In the third year—	
From railways	550
From transport tax	290
From industries	250
From ordinary budget resources	110
	1200
In the fourth year—	
From railways	660
From transport tax	290
From industries	300
From ordinary budget resources	500
	1750
In the fifth year—	
From railways	660
From transport tax	290
From industries	300
From ordinary budget resources	1250
	2500

The payments for the third and fourth years are subject to contingent addition or reduction not exceeding 250,000,000 gold marks, depending upon the total yield of the assigned customs and taxes.

System of Transfer

"*All payments for account of reparations will be paid in gold marks or their equivalent in German currency into the Bank of Issue to the credit of the 'Agent for Reparation Payments.' This payment is the definitive act of the German Government in meeting its financial obligations under the Plan.*"

Here we have the fundamental innovation, the decisive forward step, in dealing with the reparation problem. All former plans started from the standpoint that the fixing of the debt in gold marks obliged Germany herself to obtain the amounts as they fell due in foreign currency—dollars, pounds sterling, francs, lire, etc.—according to the demands of the Reparation Commission: in other words, to convert the German currency by sale into foreign currency. We have seen that this was the main cause of the collapse of the mark. No one could say how and when Germany would be in a position to pay her reparation debt in foreign money. The attempt to transfer abroad the first milliard gold marks under the London Schedule of Payments had rudely shaken the mark. From the German side the fact had always been emphasized that it was impossible for the impoverished country to transfer milliards abroad, year after year, without any return, especially as the German balance of trade had become markedly passive. But no one had as yet had the courage to cut the knot of the problem with the proposal to make Germany's debt payable in her own currency and to leave the conversion of the reparation payments into foreign money to the creditors.

Who was the father of this new idea? It did not originate in the deliberations of the Dawes Committee; it is already to be found in the report of 20th December 1923 on the financial reconstruction of Hungary, made by the committee established for this purpose by the League of Nations. There it is stated that for the protection of the currency it was necessary that payments by Hungary under the Peace Treaty should be made in Hungarian crowns to the Bank of Hungary and that the president of the bank should convert such payments into foreign currency as promptly as possible, without, however, endangering the value of the Hungarian crown. The experts of the Dawes Plan, therefore, found this conception of the transfer problem ready to hand. They took firm hold of it and gave a circumstantial justification of it in their Report, as follows.

There is a great difference between the revenue which Germany can raise for reparation purposes and the amount which it can transfer to foreign countries. The funds transferred to the Allies on reparation account cannot, in the long run, exceed the sums which the balance of payment makes it possible to transfer without

producing currency and budget instability. A country's economic balance defies exact calculation. It can be estimated only approximately, especially as regards the important item of invisible exports and imports. But the limits set by the economic balance, if impossible of exact determination, are real. For the stability of a country's currency to be permanently maintained, not only must her budget be balanced but her earnings from abroad must be equal to the payments she must make abroad, including the sums paid in reparation. Reparation, therefore, can only be paid abroad by means of an economic surplus in the country's activities.

The annual amount which Germany, according to the condition of her budget, was able to pay, was to be fixed in gold marks. At the same time safeguards were provided lest the conversion of amounts paid in marks into foreign money should disturb the stability of the German currency and endanger future reparation. In this way only the maximum amounts which the Allies might obtain from reparation were indicated. If it appeared that only a part of these sums could be converted into foreign money then the limitation would depend upon the exact economic position as it developed and not upon any estimate of it. The limitation, therefore, would take place only in so far as it was really necessary. Sums paid in for reparation, which could not be completely transferred, would be used by the Allies, subject to certain conditions, for investments inside Germany. In this way the rights of both sides were safeguarded. It would be hazardous and unjust to forecast the possibilities of future development of the rates of foreign exchange and to attempt to estimate Germany's reparation burden in advance. Experience alone could tell to what extent the conversion into foreign money would be practicable. In the meantime the German taxpayer would have to carry an adequate burden of taxation, and a credit balance was accumulating in gold marks for the Allies which might be converted into foreign currency as rates of exchange would permit.

Upon this basis the transfer system of the Plan is constructed in detail as follows: reparation payments made in gold marks are controlled by a committee—the so-called Transfer Committee—consisting of six members, and presided over by the agent for reparation payments. The other five members shall be persons qualified to

deal with foreign exchange questions. The United States, France, Great Britain, Italy and Belgium each supply one member appointed by the Reparation Commission, after the member of the General Board of the new German Bank of Issue of the same nationality has been consulted. The Transfer Committee is to keep in contact with the President and the Commissioner of the new Bank of Issue.

The Committee, acting in collaboration with the Reparation Commission, will dispose of the amounts paid by Germany:

(1) by the payments for deliveries in kind and payments under the Reparation Recovery Act;

(2) by the conversion of marks into foreign currencies, both (1) and (2) to the extent possible in the judgment of the Committee, without endangering the stability of the German currency;

(3) by investments in bonds and other loans in Germany, to such amounts as the Committee may deem wise.

In addition, the Committee may, on the instructions of the Reparation Commission and at the request of the state to which the claimant belongs, transfer reparation marks to private individuals for the purpose of making purchases in Germany, such investments not being of a temporary character, and such property being of classes contained in a schedule agreed to from time to time between the Committee and the German Government with due regard to the economic condition of Germany.

It is the duty of the German Government and the German Bank of Issue to facilitate the work of the Transfer Committee in making transfers of funds—by other means as well as by their discount policy. In the event of deliberate action either by the Government or by any group for the purpose of preventing transfers, the Committee may take action designed to defeat such manœuvres, and in such circumstances it will become freed from the restrictions otherwise imposed on the accumulation of funds in marks or the investment of funds in German property.

As far as German reparation payments are not used in the Transfer Committee's ordinary course of business—viz. in paying for deliveries in kind, in meeting necessary expenses and in converting funds into foreign currencies—they will remain on deposit

in the Bank of Issue up to 2 milliard gold marks. Any reparation deposits in excess of 2 milliard gold marks may be invested by the Transfer Committee in bonds or loans in Germany. Whenever the total credits and investments of reparation funds (deposits, loans and bonds) shall have reached the sum of 5 milliard gold marks, then the reparation payments out of the budget, including the transport tax, shall continue to be reduced to the necessary amount until there is no further accumulation of reparation funds in excess of 5 milliard gold marks.

The experts themselves have realized that their transfer system involves difficulties of a quite novel character, which experience alone can overcome. They describe their dilemma as follows: if they attempted to fix definitely the annual reparation payments at a figure which would be safely within Germany's capacity to export in excess of her imports, they would have arrived at so low a figure as to be quite unacceptable to Germany's creditors, and unwarrantably favourable to Germany. On the other hand, the debt might have been fixed without regard to that excess of German exports at all, and payment might have been demanded irrespective of its effect on the exchange market. They refused to follow the latter course, since it would lead to future instability and disaster. In their opinion, any plan which offered to the Allies the highest possible reparation must go hand in hand with intelligent and careful administration in regard to the foreign exchange situation.

Those were the reasons which led the experts to their proposal.

Duration of Payments

The task originally assigned to the experts covered only the recommendation of ways and means for balancing the budget of the Reich and stabilizing the currency; it is interesting, therefore, to follow the chain of thought by which they developed and justified their plan of reparation.

Financial as well as currency stability cannot be ensured unless the amount of reparation is determined which is to be contributed out of ordinary budget resources. It would be a mistake to fix reparation only for a period of a few years within which Germany is to attain a stable currency and a balanced budget, for stability in

currency and budget, once attained, might be rapidly lost if uncertainty continued to prevail as to what Germany would be obliged to pay in later years. The effort would then have been in vain and the same problem would again present itself. More important still is the fact that the success of the financial stabilization depends essentially upon the return of confidence in Germany's future. Without this German capital invested abroad will not return and foreign counties will not do their share by subscribing to the reparation loan and granting credits, and even the proper collection of taxes will be impossible. Confidence cannot be attained unless Germany and the outside world are given an assurance that for a considerable period neither her finances nor her foreign relations will be endangered by renewed dispute. In speaking of a " considerable period " the Committee thinks of a period which will be deemed sufficient by lenders and investors. Now it is impossible for the Committee to fix the exact reparation debt once for all, and the Allies should share in any increased prosperity of Germany, for which purpose the " Index " has been introduced.

The experts state that it is outside their competence to establish a limit of years or of amount for the working of the index, or to fix the number of annuities which Germany will have to pay, as this would practically mean the fixation of a new German capital debt. But they recommend that their plan be also applied in the definite settlement of the various international financial obligations arising out of the war, in so far as the German debt is thereby concerned.

Deliveries in Kind

These deliveries have been analysed by the Dawes Committee as follows. In their financial effects deliveries in kind are not really distinguishable from cash payments, and they cannot, in the long run, exceed the true surplus of German production over consumption available for export without either upsetting the exchange or rendering foreign loans necessary. Subject to such considerations, the deliveries in kind demanded by the Treaty must be continued. They cannot be wholly removed without great injury to the Allied Powers interested. If the principle is not carried too far, they may represent a stimulus to German productivity and the

creation of a greater export surplus. At the same time, they give the Allies a preferential hold on the surplus of German exports and act in a manner to keep transfers for reparation as large as possible. But deliveries in kind should not become uneconomic in character; they must be confined to natural products of Germany —such as coal, coke, dyestuffs, etc.—and, in the second place, to exports which do not entail the previous importation into Germany of a large percentage of their value.

In the first two years of the operation of the Plan Germany's payments are so restricted that this alone serves to keep the deliveries within narrow limits, but in the later period the programme must be carefully considered by the Reparation Commission in conjunction with the Transfer Committee so as to avoid exchange difficulties. As payments for the first two years must be expended almost exclusively within Germany the Allied Governments will have to consider if they should not continue the system whereby the costs of armies of occupation were made a first charge upon the proceeds of deliveries in kind made to the Governments which maintain the armies.

The goods supplied by Germany to the creditor countries are to be applied for the sole use of the countries receiving them for their internal requirements—including the requirements of their colonies and dependencies. The re-export from the receiving countries is permitted only with the unanimous approval of the Transfer Committee and the assent of the German Government.

Included in deliveries in kind are the payments in Germany arising through the operation of the Reparation Recovery Acts.

Guarantees

With respect to the guarantees for reparation, the Committee has made the following observations. The greater the extent to which payment may be rendered automatic and a matter of habit, and independent of fluctuating political standpoints towards reparation, the less will be the friction and the greater will be the real stability of the German budget. In the last resort the best security is the interest of the German Government and people in accepting in good faith a burden which the world is satisfied to be within their capacity, and in liquidating as speedily as possible a burden which

is, and should be, onerous. Moral security, however, is not sufficient in business, and is especially insufficient in view of past experience and the present condition of German finances. Tangible and productive guarantees are no less vital in the interest of Germany herself, who will be relieved of a large part of her political troubles if the main source of political controversy is removed by a system which no longer makes the payment dependent upon current Governmental decisions.

General control of Germany's finances is to be rejected; it would involve the controlling authority in responsibility for all financial troubles, and it might be a pretext for such troubles. General control should be reserved for the case of Germany's wilful failure to meet her obligations.

The guarantees proposed are to represent a combination of self-interest and latent pressure. For this purpose certain specific revenues—viz. customs, alcohol, tobacco, beer and sugar—will be assigned to Germany's creditors as a pledge. These revenues shall pass directly into the hands of the controlling authority, which therefrom first deducts the Treaty payments due the Allies, whilst Germany receives for her own purposes such balance as may remain. The control shall be instituted forthwith, in spite of the fact that Germany makes no payments from the budget for the first two years, because it is advisable to put the entire plan into execution in a definite and public manner. The yield of the assigned revenues for the year 1928-1929, exclusive of customs, was estimated by German officials at 1·7 milliard gold marks. The technical advisers specially consulted by the Committee estimated the yield at 2·146 milliards. There remains, accordingly, a large margin over the standard payments of 1·25 billions required under the Plan from the budget. The whole balance shall remain to Germany, which thus has the fullest inducement to increase the yield. But every increase in the yield operates in the first instance to increase the security of the Allies, whose claims have to be fully met before Germany can touch any part of those revenues.

All the above observations of the Committee apply to payments from the budget. The payments to be made by the railways and industries were secured in accordance with business principles on bonds and first mortgages.

We shall have to speak of the guarantees in more detail in connexion with the London Agreement of 16th August and the German laws enacted for the execution of the Plan.

Bank of Issue

The proposals of the experts for the stabilization of the German currency were concentrated from the start on the organization of a Bank of Issue to be provided with the necessary capital and to be subject to a certain international supervision. The fact that both the rentenmark and the paper mark—except for some passing fluctuations—had remained stable since 15th November 1923 could not shake the conviction of the experts that a large Bank of Issue would have to be established in Germany. From the beginning of its activity the Committee discussed the matter exhaustively with Dr Schacht, whose views at first did not coincide in all points with those of the Committee. Dr Schacht rather urged the immediate organization of a Gold Discount Bank, in order to finance the urgent needs of the German foreign trade. He did not wish to wait for the experts' Bank of Issue. Gradually, however, a mutual adjustment of ideas took place and it was agreed to organize the Bank of Discount in such a manner that it could readily be absorbed by the Bank of Issue. While the Committee was still at work Dr Schacht proceeded with the organization of the Gold Discount Bank (law of 19th March 1924).

Of its capital of £10,000,000 sterling, the Reichsbank took one half fully paid up. The balance of £5,000,000 was subscribed by a syndicate of German banks with 25 per cent. paid up. Later the Reichsbank bought up the entire stock. The Discount Bank was authorized to issue notes to the amount of £5,000,000 sterling, but of this privilege the bank made no use. On the commercial paper it discounted the bank secured a re-discount credit in Britain of £5,000,000 sterling and in America for the same purpose a credit of 25,000,000 dollars. These credits, likewise, have hardly been drawn upon. By reason of the developments following the adoption of the Dawes Plan, the bank soon lost its importance.

For the new Bank of Issue the experts proposed the following

principal features. Either a new bank shall be established or the Reichsbank shall be reorganized for the purpose. With the exception of small banks with a right of issue subsisting in Baden, Bavaria, Saxony and Würtemberg, the Bank is granted the exclusive right to issue bank notes in Germany for the period of fifty years. All German paper money circulating at the time is to be withdrawn from circulation. The Rentenbank shall be gradually liquidated. The notes of the new Bank are to be protected by a normal reserve of 33⅓ per cent. in gold and foreign exchange. For the time being the notes are not redeemable in gold. The new Bank, like the old Reichsbank, is merely a bankers' bank, re-discounting prime bills of exchange and establishing the official rate of discount, and acting as a central clearing office for the transfer of credits between banks. It is to be the depository and the fiscal agent of the German Government, but may make only short-term loans to the Government, limited in amount. The Government is to participate in the profits of the Bank but the Bank is entirely free from Governmental control or interference.

All payments for reparation are to be deposited in the new Bank to the credit of a special account, and are withdrawable by the creditor nations only under conditions and safeguards which will adequately protect the German exchange market and the interests of the creditor nations and the German economy.

We shall have to deal with the administration of the Bank in connexion with the new German Bank Law.

Organization

The experts did not simply leave the execution of their plan to the Reparation Commission but proposed an organization which, while issuing from the Reparation Commission and being responsible to it, otherwise operates independently in its several departments. It provides for one commissioner each for the Bank of Issue, for the railways and for the controlled revenues. The Plan also provides for an agent for reparation payments. He is to represent a co-ordinating agency between the Reparation Commission and the various commissioners and see to it that there is no friction and overlapping of functions. He is to prevent duplication of effort

and, in short, ensure harmonious co-operation in the execution of the Plan.

These functions make the position of the agent the most important in the organization; in case of a difference of opinion, however, between any commissioner and the agent, the commissioner may appeal to the Reparation Commission.

The Plan further provides for a trustee for the Railway and Industrial Bonds. As a matter of fact *separate trustees* were appointed later *for each* of the two classes of bonds. The agent and the trustees are appointed by the Reparation Commission, and likewise the Commissioner of Controlled Revenues, but the Commissioner of Railways is appointed by the foreign members of the Board of Directors of the Railway Company, and the Commissioner of the Bank in a similar manner. In order to facilitate collaboration the commissioners, the agent and the trustees are to form a co-ordinating Board, which, however, has only advisory powers, and is mainly intended to supply the agent with the necessary information for his co-ordinating orders.

The expenses of this organization shall be kept within reasonable limits and in any case be included in the total amount of the German annuities.

CHAPTER XXIX

THE ACCEPTANCE OF THE REPORT AND THE CONFERENCE IN LONDON FROM 16TH JULY TO 16TH AUGUST 1924

The Report of the Dawes Committee

On 9th April 1924 the reports of the two committees to the Reparation Commission were published in both English and French.

The Report of the Dawes Committee fills quite an imposing volume of one hundred and twenty-four printed pages. It is divided into three parts. The first part contains the proposals and the principal features of the Plan. The second part elucidates the financial and economic situation and the system of taxation in Germany, and deals with the control of the Reich's revenues to be pledged for reparation. The third part contains annexes with detailed plans for the bank (Annex 1), the index (Annex 2), the railway company (Annexes 3 and 4), the Industrial Bonds (Annex 5) and the transfer system (Annex 6).

The Report proper—especially the first part—is a remarkable achievement. It is brilliantly written. Its whole development breathes an animated spirit of sound economic insight. It carefully avoids political considerations. From the entire Report emanates a force of conviction which is irresistible.

At the outset the Report declares that Germany cannot recover as long as certain parts of the country are subject to financial and economic limitations by foreign Powers. All recommendations of the Report, therefore, are based upon the assumption that the fiscal and economic unity of the Reich will be restored.

The Report declines to consider political guarantees, penalties or questions of military occupation. It states, however, that foreign interference, in so far as it hampers the economic activities of Germany, must be withdrawn. The controls provided by the Committee should be sufficient for the execution of the Plan so long as Germany is not guilty of any flagrant failure.

And then follows, wholly in the line of thought of Owen D. Young, the doctrine of Germany's obligation and of Germany's strength.

"Germany must pay reparation, not only in the interest of the injured, but also for Germany's own good. Her economy cannot flourish unless the nations surrounding her likewise return to sound conditions and carry on a normal exchange of goods. And Germany is strong. She has a growing and industrious population, great technical skill, and rich material resources; the development of her agriculture is on progressive lines; she is eminent in industrial science. Ever since 1919 the country has spared no expense to improve its plant and equipment—particularly its railway system, its telephone and telegraph communications, and its harbours and canals. The German industry has constructed an entirely modern plant which can produce a much greater output than before the war. Germany is therefore well equipped with resources and the means to exploit them. When the present credit shortage has been overcome she will be able to resume a favoured position in world competition. Without undue optimism, it may be anticipated that Germany's production will enable her to satisfy her own requirements and raise the amounts contemplated in the Plan for reparation obligations."

And quoting from the closing paragraphs of the Report:

"The Plan is an indivisible whole. It is not possible to achieve any success by selecting certain recommendations for adoption and rejecting the others; nor must there be undue delay in giving execution to the Plan. It can work only when Germany's economic sovereignty is restored. Its operation will be proportionately postponed if there is a delay in effecting that restoration.

"The reconstruction of Germany is not an end in itself. It is only part of the larger problem of the reconstruction of Europe.

"While the Plan does not, as it could not properly, attempt a solution of the whole reparation problem, it foreshadows a settlement extending in its application for a sufficient time to restore confidence, and at the same time it is so framed as to facilitate a final and comprehensive agreement as to all the problems of reparation and connected questions as soon as circumstances make this possible."

The Report of the McKenna Committee

Reference has already been made to the basis of the work of the Second Committee. Its report is rather short. After an examination

of all elements which have affected the movement of German capital investments abroad since 1914, it reaches the conclusion that the total amount of German capital and credit balances abroad at the end of 1923 could not be less than 5·7 milliard gold marks nor more than 7·8 milliard gold marks, and the middle figure of $6\frac{3}{4}$ milliard gold marks was indicated as probably correct. To this must be added the amount of foreign currency held in Germany, which was estimated by the Committee, at the same date, at not less than 1·2 milliard gold marks. On the other hand the value, estimated by the Committee at from 1 to $1\frac{1}{2}$ milliard gold marks, of the property held in Germany by foreigners was not to be overlooked.

In an annex to the Report details are given of the estimations employed by the Committee. They cover all items that have any bearing on the fluctuations of German investments abroad, but unfortunately these data do not permit a verification of the final result, as the figures for several items are missing. Notwithstanding the great pains the Committee has taken, and the diversity of the material used, it is questionable whether its estimates can be accepted as reliable. At any rate, the development of the money market in Germany since the operation of the Dawes Plan is calculated to cast doubt on the belief that at the end of 1923 the German investments and credit balances abroad reached the surprisingly high total of 8 milliard gold marks.

To the question of how the escaped capital could be brought back to Germany, the Report answers:

"As in other countries the flight of capital arose principally from the failure of the Government to bring its budget into proper order and, as a corollary of such failure, from the raising of large loans and the direct issue of paper money. Secondly, it was due to the action of speculators and timid investors who sold their marks against foreign currency, while the exporters of goods retained abroad all that was possible of the proceeds of their sales. In the case of Germany, however, the flight of capital was accentuated by the attitude of the people of Germany towards payments to her war creditors, and was marked by new and ingenious devices and schemes for evading restrictive legislation and for cloaking the real ownership of foreign balances. When successful evasion is so richly rewarded all restrictive legislation must remain ineffective. Neither

legal enactment nor severe penalties resulted in disclosure of assets abroad or hampered the flight of capital. Whether the Government had or had not used its best endeavours to enforce the laws and regulations did not materially affect the result. The only way to prevent the exodus of capital and to encourage its return is to eradicate the cause of the mischief. Inflation must be permanently stopped. If the issue of currency is strictly confined within the true limits of national requirements on a stable basis of value, the German with capital abroad will feel assured that he will suffer no loss in bringing it home; the speculator can no longer look for profit from the sale of marks. The developments in Austria are a case in point. Restrictive legislation, which in the main has proved futile, becomes superfluous the moment there is no longer any inducement to evade the law. It is indeed to be feared that laws purporting to compel the return of capital would have the reverse effect to that which might be wished.

"If effect is to be given to the recommendations of the First Committee — its reparation plan — a considerable part of the German assets now in foreign countries will return in the ordinary course of trade. During the period of transition, while awaiting stability and restoration of confidence, an amnesty should be granted for a limited time from penalties for flight of capital, and special terms should be offered for subscriptions to Government loans made in foreign currencies. Well-considered measures of this kind would be helpful in hastening the return of capital and the final restoration of financial equilibrium in Germany, to the advantage of reparation."

The Preparation of the London Conference

As early as 11th April 1924 the Reparation Commission notified the German Government that it considered the report of the experts as a practical basis for the rapid solution of the reparation problem, and that it was therefore disposed to accept the Plan, within the limits of its power, and to recommend to the Governments the acceptance of those points which required action by them. But the Commission could take action only after receiving assurances from the Reich of its willingness to co-operate in the execution of the Plan.

In a brief note of 16th April the German Government gave its full consent. Thereupon the Reparation Commission notified the Allied Governments and the United States in a circular note of 17th April that it had decided to accept the Report, and recommended the Governments concerned to take favourable action, in conformity with the Plan, on those points which required decision by them. The Commission would request the German Government to take at once the measures necessary to put the Plan into operation. The Commission would itself proceed to prepare the measures required of it for this purpose.

Great Britain, Belgium and Italy gave their consent on 24th April. On 25th April Poincaré, on behalf of France, sent a tortuous note, lavish in compliments on the work of the experts and the Reparation Commission, but cautiously beating about the bush in so far as France's approval was concerned. Germany should first adopt the necessary measures, then the Reparation Commission should approve these measures, and then only would the Allied Governments have to examine among themselves what course to pursue. France would gladly do anything to reach an agreement on the Plan, but only in so far as her vital interests permitted.

Here was the same old Poincaré at work—anything rather than a decision which created a new situation! He could not very well decline the Plan now, but he would at least defer its acceptance as long as possible, and watch developments.

It was impossible to make much headway with his note. While it did not prevent the Reparation Commission from continuing its preparations for the execution of the Plan, it left the eventual attitude of France entirely in the dark. Fortunately political events brought relief. At the election for the French Chamber of Deputies held on 11th May the parties of the Left scored an unexpected victory. The Poincaré Government fell, and was succeeded by a Cabinet of the Left, headed by Herriot. From this time on events developed rapidly. There was no more irresolution on the road once taken and everything moved straight forward. The Reparation Commission, freed from political pressure, did efficient work. Bradbury, Delacroix and Seydoux worked together in harmony.

The Plan of the experts required the German Government to draft the necessary legislation for the organization of the bank,

for the transfer of the German railways to a company, and for the issue of 5 milliard Industrial Bonds. The main features thereof were given in the Dawes Report and in its annexes. The experts, however, had provided that their proposals covering the three matters should be worked out in detail by organization committees, which now met. Dr Schacht, as President of the Reichsbank, and Sir Robert Kindersley worked on the organization of the bank. Sir William Acworth and M. Leverve, the authors of the report on the railways, and two German representatives—Secretary of State Vogt and myself—formed the committee for the organization of the railway company. The constitution of the Industrial Committee was delayed owing to difficulties encountered in the selection of the Allied representatives. As finally organized it included, for Germany, State-Secretary Trendelenburg and Dr Buecher, and for the Allies, Messrs Allix and Bianchini. As neutral member, Mr Marcus Wallenberg, the well-known Swedish banker, was added to the Committee.

The organization of the bank was a comparatively easy matter.

The Railway Committee, however, was facing a large and complicated problem. It had to regulate the relations of the railway company to the Government of the Reich with respect to supervision and rates, as well as to the several states which had, in 1920, transferred their railroads to the Reich by treaties which reserved them certain rights. The status of the staff and officials was an equal source of difficulty in the change over from Governmental to private operation. On all these questions an agreement was reached without calling in the fifth member of neutral nationality provided for in the Dawes Report.

To the German national sentiment the transfer of the railways to a company in the administration of which foreigners were to take part was a severe blow. The work of the Organization Committee, however, took account of German interests on several important points and dissipated a number of objections. A German majority on the board of directors is assured in any event. In case of any disagreement between the company and the Reich the decision, in the first instance, rests with a special German Court, and only on appeal—and then only in exceptional cases—with the International Court originally contemplated for all arbitration. Finally, the

possibility of the German railway system passing into foreign hands for non-payment of interest and amortization on the Reparation Bonds has been eliminated. The Railroad Commissioner, acting as agent for the trustee, can at the worst only *lease* the road, either wholly or in part, to another company, and *only after the Court has decided that this step is necessary and calculated to assure the payment of the service of the Reparation Bonds.*

The ownership of the railways therefore remains with the Reich in any event.

The Organization Committee for the Industrial Bonds had to deal with an entirely novel problem. It was a difficult problem to distribute the 5 milliard bonds among the various German industries. Originally the majority of the experts in the Dawes Committee had been of the opinion that it would be advisable to charge each single enterprise with a certain specific debt, but to have the bonds issued through a central company which would collect interest and sinking fund on the capital debt from the various enterprises and assume towards the creditors responsibility for the entire issue. Finally, however, the Dawes Committee decided that each enterprise should issue its own bonds and deliver them to the trustee. The Organization Committee was authorized to make exceptions in favour of small concerns. This question was the centre of the difficulties. A solution was found at last according to which the bulk of the 5 milliard bonds was to be issued as collective bonds of an intermediary, the Industrial Bank, and only 500,000,000 as individual bonds of the large industrial concerns. Another important question was which economic interests should be charged with the debt and how the mortgage security provided by the Dawes Report was to be established. We shall have occasion to return to these questions.

While the work of the three organization committees was in progress the driving forces in the Reparation Commission endeavoured to find a way to promote the Plan into a binding treaty between the Allies and Germany. A joint protocol was suggested in which all parties were to accept the Plan and in which Germany was to undertake to pass, within a fixed period, the necessary laws for the Reichsbank, the railways and the Industrial Bonds. A protocol was also to be signed covering the controlled revenues.

France and Belgium were then to engage, within a specific time, to take the necessary steps in the occupied territory to re-establish the financial and economic unity of Germany.

These considerations developed into the plan for a conference in which, in the first place, the Allies and representatives of the United States should take part in London on 16th July.

On the occasion of a visit of the British Premier, Mr MacDonald, to Paris, on 9th July, a memorandum was published stating that France and Great Britain were agreed that the Plan would have to be put in operation as soon as possible and that all Governments concerned should confirm their acceptance of the Plan at the Conference in London. There would be no encroachment upon the rights of the Reparation Commission, but, if possible, an American member should be added to the Commission in case a German default was to be established. The agent for reparation payments should also be brought in if the Reparation Commission failed to reach a unanimous decision. In case of Germany's wilful failure to meet her obligations under the Plan, the Allies would have to agree upon the measures to be taken. The Reparation Commission was to prepare for the London Conference a plan for the economic liberation of the occupied territory. For the questions of transfer and for deliveries in kind a special organization should be created to advise with the interested Governments, as well as for questions of interpretation of the Dawes Plan and its execution.

The memorandum thus touched upon all the questions which were soon to be decided in London.

The London Conference

The London Conference was solemnly opened on 16th July. Great Britain, Belgium and France were represented by their Prime Ministers, Italy and Japan by special delegates. Frank B. Kellogg, the American ambassador to London, and James A. Logan participated for the United States unofficially. Of the smaller Allies, Portugal, Greece, Roumania and Jugoslavia were represented.

The meeting immediately proceeded to the nomination of three committees. The Anglo-French memorandum of 9th July was to serve as a basis for their work. The First Committee, under the

chairmanship of Mr Snowden, the Chancellor of the Exchequer, dealt with the question of Germany's possible default under the Plan. The Second Committee, presided over by the British minister, Mr Thomas, prepared a programme for the restoration of the financial and economic unity of Germany. The Third Committee, under Sir Robert Kindersley, was to determine the methods by which German payments were to be transferred to the creditor states.

The work of the Second and the Third Committees was in the main of a technical nature. Guided by experienced experts they made rapid progress. In the First Committee, however, a serious conflict soon developed between Great Britain and France. The main problem was to decide what was to be done if, in the event of Germany's wilful default under the Plan, the Allies could not agree on the appropriate measures or sanctions. In the Plan itself this question, owing to its eminently political nature, had expressly been left to the joint decision of the creditor states. France now declared that every Government regained full freedom to act independently with regard to sanctions if no agreement could be reached. This standpoint, which in the meantime had also been publicly adopted by Herriot before the French Chamber, was vigorously opposed at the Conference by Great Britain.

It was no less difficult to decide the question who should have authority to establish Germany's default. On this the French held fast to the Reparation Commission, while the British contended that the Reparation Commission was not competent in matters connected with the Plan. From the American and Belgian side several compromises were suggested. They were as good as accepted, when the British and American bankers—with whom the issue of the reparation loan of 800,000,000 gold marks provided for in the Plan was under discussion in London—declared that they could not consider the security for the loan adequate as long as the decision regarding a German default rested with the Reparation Commission, and as long as France did not waive once for all her claim for independent sanctions in the way of military measures, etc. Not even in the addition of an American member to the Commission, and in the participation of the reparation agent and representatives of the bondholders—all this and more was proposed—could the bankers

find satisfactory security for the loan. Even the declaration that the loan would have absolute priority over all other reparation liabilities failed to satisfy them.

France, however, was quite as stubborn in declaring that she could not relinquish her right to independent action for the protection of her Treaty rights in extreme cases. The conflict became so acute that it threatened to wreck the Conference. Only the last days of July brought a change for the better. The representatives of the United States at the Conference realized that the American bankers had gone too far in their demands, and solemnly declared before the Conference that America attached the greatest importance to its successful outcome. At the same time, Logan proposed to withdraw the question of guarantees for the reparation loan from the Conference for the time being and to leave its settlement to special discussions between the Reparation Commission, the German Government and the international bankers. Thereupon the negotiations were resumed. France offered a new proposal for the establishment of a possible German default whereby the Reparation Commission could definitely state a default only by unanimous vote, an American member taking part in the voting. In the event of differences of opinion within the Commission, any member should have the right to appeal from the decision of the Commission to an impartial Court of Arbitration, consisting of three members, under the chairmanship of an American. The French proposal was accepted by the First Committee on 31st July.

Only now was Germany invited to send representatives to the Conference, for this, too, had, up till then, been a point of dispute. France contended that, under the provisions of the Treaty of Versailles, Germany could only be *heard* but could not participate, on a footing of equality, in the deliberations of the Conference, but after a special committtee of jurists had established that the execution of the Dawes Plan went beyond the Treaty of Versailles in a number of points, and therefore could not be forced on Germany, the participation of Germans in the Conference was assured.

The military evacuation of the Ruhr was not on the agenda of the Conference, as the matter was not directly dealt with in the Plan. Germany openly and urgently demanded the evacuation of the Ruhr in connexion with the reparation plan. As the meeting progressed

it became more and more evident that this important question could not be omitted from the discussions in London. Upon the strong advice of MacDonald, Herriot finally declared himself ready to discuss the military evacuation outside the agenda. From the Franco-Belgian side it was proposed to fix the limit of time for the military evacuation of the Ruhr at two years, provided, however, that the evacuation was to take place at once whenever Germany had repurchased 1½ milliard gold marks' worth of the Railway and Industrial Bonds provided for in the Dawes Plan, and that for every fraction of this amount repurchased a corresponding part of the occupied territory was to be evacuated. This unworthy proposal was rejected on all sides, and fell to the ground.

In the Second Committee the Allies had practically agreed on the economic liberation of the occupied territory and the various time-limits within which the arbitrary customs barriers, Micum contracts and the Franco-Belgian railway administration were to be abolished. The French made an important reservation only on one point. For the alleged purpose of protecting the troops of occupation, but in reality for reasons of prestige—namely, to cloak their political retreat—they demanded that upon the discontinuance of the railroad administration a body of several thousand Franco-Belgian railroad employees should be retained in the service of the German railways, preferably on a frontier division such as Trèves. The demand was contrary to the spirit of the Dawes Plan and devoid of practical utility.

The German delegation arrived in London on 5th August under the leadership of Herr Marx, the Chancellor, assisted by Herr Stresemann, Minister of Foreign Affairs, and Dr Luther, the Finance Minister. The situation in the Conference had, in the meantime, cleared sufficiently to enable all three committees to adopt a programme agreed upon by all the Allies. Two important questions still remained open—viz. the military evacuation of the Ruhr District and the retention of French railroad employees by the Germany railway company. But here, too, the indefatigable Americans had prepared the ground. In co-operation with Kellogg and Logan, Owen D. Young was again quietly and successfully endeavouring to bring about an intelligent understanding on all points. Mr Alanson B. Houghton, the American ambassador to

Berlin, who was also present in London, assisted his efforts. As good luck had it, Mr Hughes, the Secretary of State, was also in London during those critical days on holiday.

Observers of the proceedings of the Conference were able to inform the German delegates on their arrival that it would be possible to obtain the evacuation of the Ruhr within a year and to induce France to abandon entirely the idea of retaining Franco-Belgian railroad employees in the operation of the railways. All Germany, however, demanded the evacuation of the Ruhr within a much shorter period. To obtain this was one of the principal tasks of the German delegates.

Events did not move as smoothly as had been hoped. The German representatives deemed it necessary to justify their proposals for amending the decisions of the Second and Third Committees in a comprehensive written statement. The consequent discussion occasioned prolonged technical argumentation which, though carried on by both sides in a businesslike and thorough manner, was exhausting to all parties to the Conference. In such an atmosphere it was impossible to hasten the evacuation of the Ruhr. In the tedious debates in the different committees several of the German claims were conceded. This partial success, however, did not compensate for the failure to shorten the one-year limit for the Ruhr evacuation. The decision to resign themselves to such a result was made easier for the Germans by the fact that France agreed to evacuate at once—upon the signing of the London Agreement—the district of Dortmund as well as the other regions occupied at the same time as the Ruhr District—Offenburg, Appenweier and the ports of Karlsruhe, Mannheim, Wesel and Emmerich. Finally, it was arranged that all sanctions imposed on Germany at the London Conference of 1921 should be abolished; France held out the prospect of the evacuation of Düsseldorf, Duisberg and Ruhrort simultaneously with the evacuation of the Ruhr District.

During the Conference two problems which also came under the Dawes Plan were settled by special negotiations. Allied and German experts agreed on a protocol which fixed the payments to be made out of the budget of the Reich and defined in detail the authority of the Commissioner of Controlled Revenues. Further, on 9th August an agreement between the Reparation Commission

and the German Government was signed, in which both parties undertook to take all appropriate measures for the execution of the Dawes Plan.

On 16th August 1924 the Conference of London came to an end. The final protocol embodied the acceptance of the Dawes Plan by the Governments concerned and the Reparation Commission. The formal signature of the various documents was to take place in London on 30th August. Until then the laws drafted by the organization committees and approved in the meantime by the Reparation Commission, regarding the Reichsbank, the railway company and the Industrial Bonds, were to be passed by the German Reichstag.

A detailed plan had been agreed upon in the Conference as to the way in which the Dawes Plan was to be put into operation. First, the Reparation Commission was to declare that the German laws for the execution of the Dawes Plan had been promulgated and that the agent for reparation payments had taken up his duties. This occurred on 1st September 1924. For the transition period the office of agent was assumed by Owen D. Young, who was succeeded on 31st October by S. Parker Gilbert, the permanent Agent General.

Within five weeks following the first announcement the Reparation Commission was to declare that the necessary organization for the Plan had been completed, that the Reichsbank and the railway company had been definitely constituted, that certificates for the Railroad and Industrial Bonds had been deposited with the trustees, and that contracts had been concluded assuring the subscription of the loan of 800,000,000 gold marks. This latter declaration was duly made on 13th October.

Finally, on 28th October, the Reparation Commission was able to announce that the French and Belgian Governments had fulfilled the programme adopted by the Conference for the restoration of the financial and economic unity of Germany.

Step by step all encroachments upon the administration and legislation of the occupied territories since 11th January 1923 were removed. The German authorities, particularly the customs administration, began to function again. On 9th September the customs barrier between occupied and unoccupied Germany was

abolished. All mines, cokeries and other economic enterprises which had been exploited under compulsory Allied management were returned to their owners. All the special organizations of the occupying Powers established to levy and administer collections and charges and all restrictions on traffic in the occupied territory were withdrawn. Thus ended the unfortunate Micum agreements, which, since 15th April 1924, had repeatedly been extended, finally with some slight alleviation in cash charges; the forced deliveries of coal and coke, however, continued until the Dawes Plan entered into full operation.

During the transition period, which ended on 28th October 1924, the German Government had to pay monthly to the Agent General one-twelfth of the first annuity of 1,000,000,000 gold marks provided by the Dawes Plan—*i.e.* about 83,000,000 marks. Towards these instalments credit was given to the German Government for the taxes which the Franco-Belgian administration continued to collect in the occupied territory after 1st September, as well as for the receipts under the operation of the Reparation Recovery Act and for the German deliveries and payments for the armies of occupation. The payments thus made were afterwards refunded to the German Government from the proceeds of the reparation loan. This arrangement was necessary in order to ensure the continuation of deliveries in kind during the rather long transition period, and made it possible to start the first reparation year as early as 1st September 1924, from which date the Dawes Plan was in force.

The release of the railway lines in the occupied territory was regulated by a special provision in the London Agreement under which the operation of those lines was to be transferred step by step from the Franco-Belgian Régie to the new railway company, and the process to be completed within six weeks after the beginning of the full operation of the Dawes Plan. As a matter of fact the complete transfer of all lines was effected simultaneously on 16th November 1924.

Thus the economic interference of the Allies, originating with the Ruhr adventure, was systematically abolished. In order to make a clean slate the Allies and Germany agreed to grant mutual amnesty for all political offences committed during the Ruhr Occupation.

In connexion with the agreement signed by the German Government and the Reparation Commission on 9th August the general lines of the procedure for deliveries in kind were laid down.

Freedom of contract and commercial usage shall hereafter be the guiding principles. The Reparation Commission is to prescribe from time to time a programme for deliveries, after consultation with the Transfer Committee, giving due consideration to Germany's economic situation and domestic requirements. Within these limits any kind of German deliveries may be made and services rendered on reparation account, even though Germany may be under no Treaty obligation in respect of them. But they must always be based on a contract freely entered into between the German seller and the Allied buyer. The German Government remains responsible only for deliveries of (1) coal, coke and lignite briquettes; (2) sulphate of ammonia; (3) dyestuffs (until 15th August 1928), if the delivery of these commodities is not made under ordinary commercial contracts or is prevented by measures of wilful German obstruction.

The Allied countries are to prevent the re-export of any part of German deliveries.

The details of the procedure were to be settled by a special committee of Allied and German experts, with the co-operation of a neutral arbitrator.

The London Agreement further made clear certain points which might have given rise to doubts as to the relations between the German Government and the Transfer Committee. Under the Dawes Plan the Transfer Committee, as we have seen, may, at the request of the creditor states made through the Reparation Commission, transfer marks from reparation funds to private individuals for the purpose of permanent investment in Germany. This, however, applies only to properties a schedule of which is to be agreed upon from time to time between the Committee and the German Government. Failing an agreement, a neutral arbitrator is to decide on the motion of either party.

The Transfer Committee intervenes if an attempt is made to hinder the transfer by financial manœuvres. If the Committee is equally divided in regard to that question the decision also rests

with an independent and impartial arbitrator. In all other cases the chairman of the Transfer Committee has a casting vote.

Whenever the reparation fund has reached 5 milliard gold marks, or any lower maximum fixed by the Transfer Committee, and the Committee has by a majority decided that no concerted financial manœuvres to prevent the transfer have taken place or that specific measures to defeat such manœuvres ought not to be taken, then any member of the minority may appeal to an arbitral tribunal.

Finally, arbitration is provided in the event of any Allied Government or the German Government considering that defects exist in the technical working of the Dawes Plan which can be remedied without affecting its substantial principles. In such an event a unanimous decision of the Reparation Commission is required, after an examination of the question by the Allied organization in Berlin. Failing unanimity, or if any decision taken unanimously is not accepted by the German Government, any of the parties interested may appeal to an impartial Court of Arbitration composed of three experts.

All these examples illustrate how the fundamental principle first adopted in the nomination of the two expert committees, of submitting reparation questions to the judgment of neutral experts, was deliberately elaborated in the London Agreement.

All questions which emerged in London as possible points of contention in connexion with the execution of the Dawes Plan are entrusted to the decision of arbitrators. The procedure and the appointment of the various courts of arbitration are regulated in detail.

It is characteristic of the London Conference, in contrast to all previous meetings of the Allies, that it abolishes as much as possible the system of coercion in matters of reparation and leaves the solution of doubtful questions to the impartial decision of experts where amicable agreement between the contending parties is impossible.

The same principle, after a prolonged struggle between France and Great Britain, was also applied to the Reparation Commission. We have seen that, through the withdrawal of America from the common Treaty of peace, the preponderating influence in the

Commission fell to France; she held the practical power in her hands in all reparation questions and only for that reason did things come to such a head that the Ruhr was occupied.

The Dawes Plan made the first important breach in the bulwark of the Reparation Commission; in London the ramparts of its power were completely torn down. The attack was led by the Allied bankers with their refusal to take up the reparation loan as long as the rights of the bondholders were not protected against arbitrary measures on the part of the Reparation Commission or the Allied Governments represented in it.

The dispute was finally settled as follows.

When the Reparation Commission is deliberating on any point relating to the Dawes Plan a citizen of the United States shall take part in the discussions and shall vote as a member with equal rights. This arrangement will continue in force as long as the United States is not officially represented in the Reparation Commission. Any decision of the Commission on German offences against any of her obligations under the Treaty of Versailles or the Dawes Plan will not be valid unless passed by unanimous vote. If such a decision has been taken by a majority only, any member of the Commission may appeal to an arbitral commission of three impartial and independent persons. The president of the Arbitral Commission must be a citizen of the United States.

If Germany offends against her reparation obligations, sanctions will not be imposed on her unless a flagrant failure has been established. Such a contingency would occur if Germany were wilfully in arrears with a considerable part of her obligations. In this case the Allied Governments shall confer at once on the nature of the sanctions to be applied and on the method of their rapid and effective application. If sanctions have thus to be applied, the specific securities provided for the service of the reparation loan are to be safeguarded. Any disputes in this connexion which cannot be settled by negotiation are to be submitted to the Permanent Court of International Justice at The Hague. In all other respects the rights of the Allied Governments under the Treaty of Versailles are reserved.

This, briefly, is the agreement which settled in London the hotly debated question of sanctions. Even the bankers for the

reparation loan were pacified by it, though they still thought that these precautions were insufficient. After all it must be admitted that, with the foregoing agreement, the danger of independent interference by an Allied Power with the reparation procedure has practically been eliminated.

CHAPTER XXX

THE GERMAN REPARATION LAWS

The German laws for the execution of the Dawes Plan were passed by the Reichstag on 29th August 1924, and promulgated on 30th August. As these laws, in addition to the heavy financial burden imposed upon the German people by the Dawes Plan, introduce foreign co-operation in important branches of the German economy, it is not surprising that their passage was preceded by a severe internal political contest, particularly with regard to the railways. The conversion of the railways into a private company involved a change in the German constitution which could be adopted only by a two-third vote of the Reichstag; in the vote on the railway law the necessary majority was, in fact, obtained.

The provisions of these laws are based on the Dawes Plan and therefore familiar to us in their essentials. In so far as their details bear directly on reparation, they may be summarized as follows:

1. *Banking Law*

For the purpose of the Dawes Plan no new bank of issue was constituted, but the existing Reichsbank was reorganized to meet the new situation, which involved fundamental changes in the old German banking law of 14th March 1875. The Reichsbank is entirely independent of the Government. It is to call in all its outstanding note circulation and redeem it in new Reichsbank notes at the rate of one billion gold marks to one reichsmark. The capital of the Reichsbank shall be not less than 300,000,000 and not more than 400,000,000 reichsmarks. The bank is administered by a Managing Board, the President and all members of which are of German nationality. Further, a General Council has been set up, consisting of fourteen members, one half of which are German, while the other half is composed of one British, one French, one Italian, one Belgian, one American, one Dutch, and one Swiss member. The General Council is presided over by the President of the Managing Board. The General Council has no direct part in the actual management of the bank; it elects the President and the

Commissioner, who must be a foreigner, and acts on all proposals made to it by them. The essential duty of the Commissioner is to enforce the legal provisions relative to the issue of notes, and the maintenance of the bank's reserves guaranteeing that issue.

All notes of the Reichsbank must bear the seal of the Commissioner; they must be normally protected by a reserve of not less than 40 per cent. in gold or foreign exchange, of which not less than three-quarters must be gold. The reserve requirements can be reduced only by decision of the General Board, in which event a deficiency tax is to be paid to the Reich.

The business operations of the bank are those of a Central Bank of Issue and are on the whole identical with those of the former Reichsbank. The bank may make advances to the Reich to an amount not exceeding 100,000,000 reichsmarks at any one time, and for a term not exceeding three months, no advance to be outstanding at the close of the bank's financial year. A special account is constituted with the Reichsbank for reparation payments; the maximum amount to be held on deposit for reparation account shall not exceed 2 milliard reichsmarks without the bank's consent.

The notes of the bank are, as a general principle, redeemable in gold. This convertibility, however, is suspended until decided upon concurrently by the managing board and the general board.

The new Bank law became effective on 11th October 1924. On 15th October the reconstituted Reichsbank issued its first statement in reichsmarks, the unit of the new German gold currency.

Simultaneously with the Bank law, a law was passed regarding the withdrawal of the Rentenbank notes.

The capital of the Rentenbank was reduced to 2 milliard rentenmarks and was subscribed exclusively by the agricultural interests. The charge on industry and commerce in favour of the Rentenbank is abolished. The Rentenbank notes are to be liquidated within ten years, for which purpose a sinking fund is created at the Reichsbank, into which must be paid each year by the Rentenbank a minimum of 60,000,000 rentenmarks, and by the Reich another 60,000,000 rentenmarks, and its share of the profits of the Reichsbank, until the sinking fund has reached 1,200,000,000

rentenmarks. Thereupon the Rentenbank notes still remaining in circulation are to be called in for exchange into legal tender within a period of six months.

The principal business of the Rentenbank from now on is to take care of the credit needs of agriculture. For this purpose the Rentenbank Kreditanstatt was constituted, by law of 18th July 1925.

2. *Industrial Charges Law and the Law on the Contribution to the Industrial Charge*

As previously stated, the distribution of the reparation burden of 5 milliard gold marks among the individual industrial enterprises presented serious difficulties. To meet these difficulties the matter was regulated by two separate laws. One of them relates to the enterprises which carry the *external* burden—that is, those branches of the industry which issue debentures for their share of the burden, securing the debentures by mortgage on their real estate, and are responsible to the creditors for interest and amortization of the debt. This is a relatively small group, including only enterprises whose real property offers sufficient security for the debt. Banks, insurance companies, hotels, restaurants, public-houses and trading concerns are therefore excluded, while the carrying trade generally is also excluded, though shipping, private railways, narrow-gauge railways and tramways are included. Enterprises of the Reich or the states are also excluded, and likewise enterprises whose entire profits are payable to the Reich or the states. Finally, everyone whose business capital does not exceed 50,000 gold marks is exempt. All this, however, constitutes only the external frame for the apportionment of the industrial debt. In reality nearly all industrial and commercial enterprises are drawn in to make up the annual charge of 300,000,000 gold marks. This is the *internal* disposition, regulated by the law on the Contribution to the Industrial Burden. Under that law the interest and amortization charge on the 5 milliard gold marks is laid upon all industrial enterprises, even upon those exempt from the Industrial Charges law, including enterprises of the Reich, the states and municipalities. The only concerns that are exempt from contribution are those whose business capital does not exceed 20,000 gold marks and, in

principle, all enterprises engaged in agriculture, forestry, market gardening, raising of live stock, viticulture and fisheries.

We are therefore dealing with two concentric circles, the smaller of which is responsible for the debt to the reparation creditors, the larger one for the debt to the Reich. The same burden, therefore, must be assessed twice—viz. separately on the members of each group. This necessitates a procedure which is very complicated in its details, and its practicability is as yet to be demonstrated.

The entire arrangement is made possible only by means of an intermediary: *the Bank for German Industrial Debentures.* This bank receives the annual payments of all enterprises subject to the contribution, and administers and pays them to the Reichsbank to the credit of the Agent General for account of the Trustee. The enterprises responsible to the creditors, the smaller group, in reality do not pay to the bank the full interest and amortization due under their nominal liability, but only the smaller annual charge resulting from the distribution of the entire burden among the larger group responsible. By a decree of 13th December 1924 the reparation debt of the enterprises responsible for the debt was fixed at 17·1 per cent. of their business capital, but was later reduced to 15·73 per cent. For this amount each individual enterprise had to issue its own debentures and to deliver them to the bank. The amount, however, which each enterprise has actually to pay in any given year is not calculated on the face-value of these debentures, but will be determined by the distribution of the annual charge of 300,000,000 gold marks among the large group. This distribution has not yet been carried out and therefore no figures can as yet be given to show the actual assessment on each enterprise.

The individual debentures are payable in gold marks, and are issued in favour of the Industrial Bank. They carry interest at $2\frac{1}{2}$ per cent. for one year from 1st September 1925, thereafter at 5 per cent., and are to be amortized at the rate of 1 per cent., commencing 1st September 1927. Against these individual debentures the Industrial Bank issues its 5 per cent. Industrial Bonds, payable to bearer, in two series of $2\frac{1}{2}$ milliard gold marks each. One series remains without interest until 1st September 1925, the other until 1st September 1926; thereafter both series of debentures

bear interest at 5 per cent. Beginning with 1st September 1927 they are amortized at the rate of 1 per cent. per annum.

The Dawes Plan provides that in principle the individual debentures shall be placed on the market, and the law accordingly stipulates that the Trustee may sell 500,000,000 of the individual debentures. To this end the largest German enterprises are enlisted, the aggregate charge on which amounts to $1\frac{1}{2}$ milliard gold marks. At the request of the Trustee they must exchange their individual debentures deposited with the bank for new bearer-bonds. The Trustee can never sell more than one half of the debentures of any one enterprise, nor more in all, as stated above, than 500,000,000 gold marks. The bank, therefore, delivers to the Trustee, who has to administer a total of 5 milliard debentures, $4\frac{1}{2}$ milliard Industrial Bonds and 750,000,000 individual debentures. When the Trustee has sold 500,000,000 of the individual debentures the remaining 250,000,000 are returned to the bank and replaced by Industrial Bonds.

Debentures of shipping and railway enterprises are not negotiable.

Any enterprise has the right to repurchase its own debentures, as long as they are in the hands of the Trustee, either at their face-value or at a price agreed upon with the Trustee. The latter is to allow the enterprise whose debentures he intends to sell one month's time for their repurchase.

The burden of the various enterprises is assessed annually on the basis of the capital tax, but after the expiration of five years not more often than once in two years. A formal mortgage lien is not provided for the reparation charge; in lieu thereof the form of a Public Law Mortgage—which requires no registration and is not cancelled in the event of a forced sale, but is automatically transferred to the purchaser—was adopted. This Public Law Mortgage, as a rule, has priority over all other claims against the property.

Principal, interest and amortization of the debentures are guaranteed by the German Government. They are specifically secured by the controlled revenues pledged for reparation.

For the settlement of disputes between the Government and the bank on the one hand, and the Reparation Commission and the Trustee on the other, impartial arbitration is provided.

The Bank for German Industrial Debentures has a capital of 10,000,000 gold marks, with its seat in Berlin. The Managing Board is of German nationality: the Board of Directors, including the President, is composed of fifteen members. Seven members are appointed by the Government of the Reich, three by the Reparation Commission and four by the foreign members of the General Board of the Reichsbank. The President must be German.

The individual debentures for the total charge of 5 milliard gold marks, issued by 60,500 assessed enterprises, were delivered to the bank by the German Government for account of the Trustee on 28th February 1925; the bank has issued the corresponding Industrial Bonds.

3. *The Law on the German Railway Company and its Statutes*

For the purpose of reparation the operation of the railways of the Reich is transferred to the German Railway Company until 31st December 1964. The concession, however, expires in any event with the redemption of all the Company's reparation bonds and preference shares, and may therefore be extended or shortened accordingly. The ownership of the railways, with all appurtenances, including rolling stock, remains with the Reich. Stock-in-hand and stores, on the other hand, as well as cash and bank deposits, become the property of the Company.

The Company's reparation liability of 11 milliard gold marks is secured by a like amount of the Company's bonds, which, under the provisions of the law, are a first general mortgage on all lands belonging to the Reichsbahn undertaking or the real property of the Company, as well as to everything attached to these lands. As from 1st September 1927 the bonds carry 5 per cent. interest and 1 per cent. sinking fund. From that date the normal annual charge payable by the Company is 660,000,000 marks. The reparation payments of the Company are guaranteed by the Government of the Reich, and for this purpose are also specially secured by the controlled revenues from the budget.

The original capital of the Company consists of 2 milliards of preference shares and 13 milliards of ordinary shares. The latter are owned entirely by the Reich. The preferred shares are in bearer

form. The proceeds from the sale of the preferred stock are mainly to serve the Company's needs which cannot be paid out of operating revenues, more especially to provide for extensions and improvements. Under the Dawes Plan the Reich is to receive the proceeds from the sale of the first 500,000,000 marks of preference shares in order to provide for its own liability in the second reparation year. The Company has already placed at the disposal of the Reich 500,000,000 marks of preference shares for that purpose.

The governing bodies of the Company are the Board of Management and the Directorate. The latter conducts the business of the Company under the supervision of the Board. It is composed of the Director General and one or more directors, all of whom must be German. The Board of Management is composed of eighteen members, nine of whom are appointed by the Government of the Reich and nine by the Trustee. Of those appointed by the Trustee five are Germans, so that fourteen Germans and four foreigners sit on the Board. After the issue of the preference shares the owners thereof are to be given four out of the nine seats to be filled by the Government—in the proportion of one seat for every 500,000,000 gold marks of preference shares issued. The representatives of the preference shareholders must be Germans.

The President of the Board of Management must also be a German; he is elected annually by the Board, by a majority of three-fourths of the votes cast. He shall be selected from the representatives of the preferred shares as soon as they occupy three seats on the Board.

The owners of the Reparation Bonds are represented by the Trustee. Their rights are protected by a Railway Commissioner, who is appointed by the foreign members of the Board. The Commissioner takes part in the meetings of the Board, but without the right to vote; he is entitled only to information and inspection so long as the service of the bonds is not in jeopardy. The rights of the Commissioner are extended if the Company defaults on any of its reparation liabilities; he may then request that a change should be made in the office of Director General. If the Company remains in arrears for more than six months, and the deficiency is not met by the Government of the Reich, the Commissioner himself may take over the operation of the railroads and ultimately lease the

concession to another company. In the latter event, however, the impartial arbitrator provided by the law must first decide that the contemplated lease is necessary and likely to ensure the service of the reparation bonds.

For the protection of the public interest, the Government of the Reich has control over the tariffs and the service of the railways. Such control, however, must not be exercised in such a manner as to impair the ability of the Company to earn the receipts necessary for the service of the bonds and preference shares.

All former permanent staff, employees and workmen are taken over by the Company. Their rights and duties are defined by a special staff law and staff regulation.

4. *Controlled Revenues of the Budget*

A word remains to be said regarding the rights of the Commissioner for Controlled Revenues under the London protocol.

The German services are to transfer, and are, in fact, transferring, the assigned revenues to the Commissioner on the 20th of each month. For the sake of simplicity only the ten largest "Zollkassen," the "Oberfinanzkassen" and the administration of the alcohol monopoly, are charged to make these payments. Up to 31st August 1926—*i.e.* during the two years in which Germany is not bound to effect any payments out of her ordinary budget—the Commissioner will, in the normal course, immediately replace at the disposal of the German Government the amounts paid to his account. Beginning with the third year he retains from the monthly payments one-tenth of the annual amount due from the budget. From this amount he transfers each month to the Agent General the necessary instalment due—that is, one-twelfth of the total annual liability—and uses the balance for the accumulation of a reserve fund. As soon as that fund reaches 100,000,000 gold marks he retains only so much as is necessary to meet the monthly instalments as they mature, and returns the balance to the German Government within one week after the remission to him of the total receipts of the month. Any eventual deficiency in the monthly payments is met from the reserve fund.

As long as the payments out of the budget are received as fixed,

the Commissioner has only the right to information and examination, which, however, is extensive. Moreover, all draft laws and ordinances concerning the controlled revenues are to be duly communicated to him. The rights of the Commissioner are extended if the amounts transferred to him for three consecutive months aggregate less than one-tenth of the annual liability, or if, without any change in the laws the revenues, as compared with the corresponding period for the preceding year, show a material decrease. In such an event he is authorized to make proposals to the German Minister of Finance and to investigate through his mandatories or experts the causes of the decrease. If the receipts from the controlled revenues, despite a complete absorption of the reserve fund, should be insufficient for several months to cover the monthly instalments, or if the Finance Minister should not have given effect to the proposals of the Commissioner and the revenues continue insufficient, the Government of the Reich must temporarily assign as security other indirect taxes. Should all this prove of no avail, then the Commissioner, in agreement with the Agent General, may demand a change in the administration of the revenues the failure of which has occasioned the deficiency. For this purpose he may claim that autonomous organizations, independent of the Reich, be constituted for the administration of the revenues in question. Such a change, however, can be carried out only after the neutral arbitrator who adjusts all divergencies of opinion between the Government and the Commissioner has decided that the measure is necessary and apt to increase the returns from taxation so as to guarantee the annual budget liabilities. All these provisions follow closely the model of the railways.

The detailed provisions of the protocol are very intricate. They give evidence of the hard struggle which they occasioned in the London Conference.

The tax rates on alcohol, tobacco, beer and sugar are not to be reduced without the consent of the Commissioner. The Commissioner shall avoid any interference with the customs policy of the German Government.

CHAPTER XXXI

THE OPERATION OF THE PLAN

The Reparation Loan

After the close of the London Conference there was a temporary lull in the loan question. The English and American bankers, who during the Conference had demanded that the loan should be more strictly guaranteed against political complications, assumed a waiting attitude. Discussions regarding the loan started in London toward the end of September, between J. P. Morgan & Company and the Bank of England, on behalf of the lenders, and Dr Schacht and Dr Luther, on behalf of Germany. The negotiations were brief, and the conditions more or less dictated.

The loan agreement was signed on 10th October. The terms were: 7 per cent. interest, issue price, 92; repayment, 15th October 1949, by means of a sinking fund—in America at 105 per cent., in other countries at par. The loan was underwritten by the banks—at 87 per cent. in America and 87½ per cent. in Europe, less stamp tax. As the proceeds had to produce 800,000,000 gold marks net for reparation, the face-value of the loan necessarily had to be materially higher. Since the time of the issue the British pound sterling—in which most of the European issues of the loan are expressed—has reached gold parity. In consequence thereof the nominal value of the total reparation loan calculated in gold marks is at present about 960,000,000.

The American *tranche* of the loan was 110,000,000 dollars; Great Britain took £12,000,000; Holland, Sweden, Switzerland, France, Belgium and Italy smaller amounts. The balance of £360,000 necessary to round the net proceeds up to 800,000,000 gold marks was taken up in Germany through the Reichsbank.

On 13th October 1924 the Reparation Commission granted the service of the reparation loan an absolute first charge on all payments under the Dawes Plan, on the controlled revenues of the budget and on any other assets or revenues of Germany subject to a lien of the Allies under the Treaty of Versailles. The German Government on its part recognized the service of the loan as a direct and unconditional obligation of the Reich.

The issue of the loan, which took place in New York and London on 14th October, was a brilliant success. The price on the Stock Exchange immediately advanced several points, and has since risen above par in London and New York.

On 31st October 1924 the Transfer Committee, at its first meeting in Berlin, also confirmed the priority of the loan, and decided that all amounts in gold marks necessary for its service should have an absolute right of transfer into foreign exchange irrespective of the effect upon the exchange. The entire proceeds of the loan were paid in to the Reichsbank in foreign exchange to the credit of the Agent General. In conformity with the Dawes Plan the Reichsbank acquired these foreign currencies for its own account, crediting the equivalent in reichsmarks to a special account of the Reich, subject to the control of the Agent General. Three trustees are appointed for the loan, headed by the Agent General, who also provides for the service of the loan.

The Organization under the Plan

On 10th October, in conformity with the London Agreement, the Reparation Commission appointed Thomas N. Perkins, a Boston lawyer, member of the Reparation Commission for the execution of the Dawes Plan. At the same time it appointed the members of the Transfer Committee and the occupants of the offices which it had to assign under the Dawes Plan.

The permanent organization for the execution of the Dawes Plan at present is as follows:

Agent General for Reparation Payments, S. Parker Gilbert (American); Commissioner of the Reichsbank, G. W. Bruins (Dutch); Commissioner of the Railways, Gaston Leverve (French); Commissioner of Controlled Revenues, Sir Andrew McFadyean (British); trustee for the German Railway Bonds, Leon Delacroix (Belgian); trustee for the Industrial Debentures, Bernardino Nogara (Italian).

The Transfer Committee is composed of the Agent General, as chairman, and the following members:

Joseph E. Sterrett (American); Jean Parmentier (French); Henry Bell (British); Pasquale Jannaccone (Italian); René Tilmond, on the resignation of M. Janssen (Belgian).

The new organization for the Dawes Plan greatly restricts the activities of the Reparation Commission. A reduction of the Commission's personnel was all the more necessary as its expenses amounted to about 50,000,000 francs per annum. In November 1924, therefore, the Commission decided to discontinue all unnecessary branches of its administration. The principal delegates are no longer called upon to reside permanently in Paris, but only to assemble for certain meetings. Their deputy delegates constitute a permanent managing committee in Paris, which, in connexion with the Secretariat General, transacts the current business of the Commission.[1] Most of the subordinate services, more especially for the Restitution and the Finance Service, are abolished, or greatly reduced.

The Procedure governing Deliveries in Kind

After the conclusion of the London Agreement the first concern of the Agent General was to bring order into the treatment of deliveries in kind. During the time of the Micum contracts and other forced deliveries from the occupied territory, chaos reigned supreme. Even the Reparation Commission's system of accounting for deliveries in kind had become completely disorganized. In the first year of the Dawes Plan the Agent General had at his disposal 83⅓ million gold marks per month, out of which he had to make all payments under the Treaty of Versailles. For the sake of clearness he introduced a system of monthly programmes for deliveries and payments, from which it immediately became apparent that it would be necessary to reduce the demands of the Allies. On the request of the Agent General the programme for coal deliveries was reduced by 10 per cent. as early as 18th September 1924.

It was now important to adopt an orderly procedure over the entire field of deliveries in kind. The Special Committee provided by the London Agreement met on 6th November 1924, in Paris, with four German and four Allied members, representing respectively Belgium, Great Britain, France and Italy. It soon decided to call in the additional neutral member to settle differences of opinion. The choice fell again on Marcus Wallenberg, whose experience in reparation matters was well tested and who assumed the chairmanship

[1] Since the above was written, demobilization of the Commission and its staff has been carried further.

of the Committee. On 9th March 1925, after exhaustive labours, the Committee presented its report to the Reparation Commission, together with proposals for the procedure to govern deliveries in kind. These regulations, with some amendments, were accepted by the Transfer Committee and the Reparation Commission, and became effective on 1st May.

The procedure applies to all German deliveries in kind. It regulates the free reparation contracts between German producers and Allied buyers, as well as the compulsory deliveries under the Treaty of Versailles, in so far as they subsist under the London Agreement. The Committee endeavoured to create a simple and expeditious system for the formulation of programmes of deliveries and for the approval of the contracts. Under this system the Reparation Commission and the German Government each establish technical offices in Paris which are to co-operate closely. In principle all goods and services produced by the German economic system may be the subject matter of a delivery in kind. Special commodities—especially imported raw material, precious metals, the basic materials of the iron, leather and paper industries, undressed timber, and practically all agricultural products—are excluded from reparation deliveries. Certain other commodities may be delivered in accordance with fixed rations. Finally, many commodities, the production of which requires a large percentage of foreign raw material, are only partially to be paid by the Agent General, while the value of the foreign raw material used therein is to be paid in cash by the purchaser directly to the seller. Detailed lists of the different groups were prepared by the Committee. The preparation of the programmes for deliveries is regulated as follows.

1. The programmes for coal, coke and lignite briquettes shall be fixed provisionally by the Reparation Commission for periods of three months. The division into qualities is to be determined according to the demands of the receiving countries, to which Germany shall have regard as far as possible. Under normal conditions coal and coke are to be taken from the Ruhr and Aix-la-Chapelle basins and lignite coal from the Cologne basin. Deliveries may also be executed under free contracts between the Allied buyers and the German producers, such deliveries being deducted from the total quantity of the official quarterly programme. The office

of the Reparation Commission must assure itself that the Transfer Committee raises no objection to the execution of the programmes.

2. For sulphate of ammonia and other synthetic fertilizers the Special Committee itself prepared a preliminary programme up to 1st April 1927, under which the German nitrogen syndicate was to deliver annually 20,000 tons of nitrogen to France, 2000 tons to Belgium and 3000 tons to Italy.

3. For dyestuffs and pharmaceutical products an agreement, covering all deliveries up to 15th August 1928, was entered into between the Allied purchasers and the "Interessengemeinschaft" of the German chemical industry.

4. For merchandise the delivery of which is subject to rationing a programme will be drawn up every six months for the deliveries to be effected in the succeeding eighteen months. The programmes are prepared by the Allied and German offices in Paris, submitted to the Transfer Committee, and approved by the Reparation Commission.

Deliveries of timber and raw sugar, up to 1st April 1927, were fixed by the Special Committee itself.

5. All other commodities may be delivered freely and in unlimited quantities, in so far as is practicable without injury to the German economy.

The Allies have the right—but are under no obligation—to take delivery of the merchandise in the quantities provided by the programmes.

All commercial contracts for deliveries are subject to approval by the office of the Reparation Commission. The German bureau receives due notice of such contracts and may file objections. The American member of the Reparation Commission decides finally on any disagreements between the offices.

A special procedure is provided for so-called exceptional contracts, such as:

(*a*) contracts for complete installations, works of public utility and shipbuilding;

(*b*) contracts for deliveries and payments extending over more than twenty-four months;

(*c*) contracts for commodities not included in any programme nor subject to rationing when the annual payments exceed 12,000,000 gold marks.

All these contracts are examined by the offices jointly under the chairmanship of the American member of the Reparation Commission, and they must then be confirmed by the Transfer Committee and approved by the Reparation Commission. Deliveries in kind are paid from the account of the Agent General against drafts or orders to pay presented by the German contractor or the German Government.

The London Agreement prohibits the re-export of reparation goods. In this matter, also, the Special Committee made detailed arrangements providing, *inter alia*, for offences against the procedure and for fraud. The entire regulations may, after 1st April 1927, be revised every two years. The Committee also decided that a contract made in the ordinary course of business cannot be changed into a reparation contract without the consent of the German seller.

It is impossible within the limits of this book to enter into the details of the programmes and the extensive provisions made by the Committee, especially for the delivery, transport and payment of coal and coke. They reflect the long struggle waged for years between the Reparation Commission and the German Government over deliveries in kind, and the regulations naturally take careful account of the experience then gained.

It is, however, yet to be demonstrated whether under the new provisions a method has been found which permits deliveries in kind to move smoothly and on a large scale in accordance with ordinary commercial usage. A really free flow of deliveries for reparation account can hardly be expected now, any more than in the past. With the control and interference of so many official institutions this is not really possible. Perhaps the German interest does not now require such far-reaching precautions against the extension and the abuse of deliveries in kind. Caution was well justified during the period of inflation, when the German economy was suffering severely from a shortage of commodities, and as long as no fixed plan for annual deliveries existed, with the result that all deliveries disappeared into the 132 milliards as into a sieve. But all this has changed. Pending a complete adjustment of international markets, and of her own economy, Germany herself has a lively interest in delivering on reparation account goods in which the world market is stagnant.

The Levy on German Imports (Reparation Recovery Act)

The Dawes Plan places the levy on German imports by Allied countries on the same footing as deliveries in kind. It therefore devolved upon the Transfer Committee to bring such German payments into the system of the Dawes Plan, and ensure their supervision by itself.

It will be remembered that it was decided to impose the levy at the London Conference, in March 1921, and that after the London ultimatum of 5th May 1921 Great Britain imposed it at the rate of 26 per cent. of the German imports. During the occupation of the Ruhr, Germany was able to conclude an agreement, on 25th February 1924, by which, on account of the great financial distress in Germany, the levy was reduced to 5 per cent.; but as early as 29th August 1924 the British Government re-established the former rate of 26 per cent., in order to earmark for itself a portion of the German payments under the Dawes Plan corresponding to the deliveries in kind drawn from Germany by its Allies.

France passed the necessary legislation for the imposition of the import levy in April 1921, but did not put it into force at the time. As from 1st October 1924, however, the French Government, in spite of Germany's representations, likewise started to collect a levy of 26 per cent. on German imports, on the model of the British Recovery Act. Other countries, such as Belgium and Italy, had the same intention, but so far have not carried it out.

The German Government took the point of principle that the levy was inconsistent with the very basis of the Dawes Plan, in that it impaired Germany's economic equality and freedom of action, and was calculated to endanger the Germany currency. The Agent General also raised strong objections to the Recovery Act, the fact that the levy was entirely outside the control of the Transfer Committee causing him particular anxiety.

The British method of collection was this: the customs authorities took from every shipment of German goods to England 26 per cent. of the selling price, leaving it to the exporter to recover the equivalent of the levy from the German Government, or, after the Dawes Plan had become operative, from the account of the Agent General. The Transfer Committee, therefore, was

always confronted with an accomplished fact. With Great Britain, and later France, arbitrarily trespassing on reparation, it was impossible for the Committee to exercise the supervision which devolved upon it. Further, the orderly distribution by the Committee of the German annuity among the Allies was complicated, for the British and French customs authorities naturally collected the 26 per cent. regardless of whether or not the levy was within the limits of their Government's contractual share in reparation funds. The British Recovery Act always, in fact, yielded somewhat more each month than the amount to which the British Government was entitled out of the German annuity. What was good for Great Britain must be good for the other Allies. If this means of collecting direct reparation from Germany was adopted generally without restraint, then the Transfer Committee had to fear that the German annuity might melt away surreptitiously, and that the German currency might again be endangered. The Transfer Committee was also alive to the disadvantages under which German commerce was unnecessarily placed by the collection of the tax. The interference of the customs authorities with imports was just as burdensome and annoying to the Allied purchaser as it was to the German seller. It was evident that the purchaser, in order to avoid these difficulties, looked around for sources of supply in other countries. If, nevertheless, the German importer succeeded in disposing of his goods in Great Britain or France, he had to be prepared for the fact that the equivalent of the levy would be refunded to him, either by the German Government or by the Agent General, only after appreciable delay and through a tedious procedure.

The Transfer Committee considered the question at its very first meeting, on 31st October 1924, and decided to bring about a change in the procedure. To this end it was necessary to negotiate with Great Britain and France, and that required time. Meanwhile, if the Committee desired to safeguard its rights, it had only one weapon available—it could suspend reimbursement to the German exporter until the Allied Governments recognized the Committee's right of control. This measure was seriously considered, though the Committee was aware of the fact that its adoption would, for the time being, place German commerce in a still worse situation. In fact, on 14th November, the Agent General officially notified the

German Minister of Finance that, on and after 1st December 1924, he would repay the German Government for the reimbursements made to German exporters only to the extent that he was authorized to do so by the Transfer Committee. For the time being, however, the Committee gave this authorization, and on this basis the Agent General reimbursed to the Government the expenditure occasioned by the levy.

In December negotiations started with Great Britain and led, on 25th March 1925, to a protocol between the British and the German Governments which met with the approval of the Transfer Committee and the Reparation Commission. The Agreement between the two Governments was signed on 3rd April and ratified by the British Parliament on 7th April. On 1st May 1925 the new method of administering the British Reparation Recovery Act came into effect.

The tax of 26 per cent. is accordingly no longer collected on each shipment of imported merchandise but is merely calculated statistically by the customs authorities. The actual payment of the amount of the levy thus fixed each month is made as follows: 1200 German export firms, who represent about 90 per cent. of the total German exportation to England, have given undertakings to the German Minister of Finance to deliver to the Reichsbank monthly, in pounds sterling, 30 per cent. of the value of the goods exported by them to England during the preceding month. It is assumed that this deposit is sufficient to cover 26 per cent. of the value of the *total* imports into Great Britain from Germany. Out of the pounds sterling so delivered the Reichsbank remits each month to the Bank of England, for account of the Agent General, the amount which the British Government is entitled to receive under the Recovery Act, and which is at its disposal with the Agent General under the reparation programme. Upon receipt of telegraphic advice of the transfer the Agent General reimburses to the German exporters, through the Reichsbank, the equivalent in reichsmarks of the sterling remittance to England, and, with the approval of the Transfer Committee, pays over the sterling to the British Government.

A reserve fund of 10,000,000 reichsmarks is constituted out of Government money at the "Devisenbeschaffungsstelle"—a German Government office—out of which any deficiencies are paid if

the sterling amounts delivered by the German exporters to the Reichsbank should not be sufficient to cover the levy of 26 per cent. The fund is to be replenished from any surplus arising out of subsequent payments made by the German exporters to the Reichsbank.

The new procedure marks a decided progress in two directions. It assures to the Transfer Committee the necessary control over the levy and enables the Committee to suspend payments to Great Britain if at any time they prove harmful to the German currency. The Committee, moreover, is now in a position to maintain payments to Great Britain within the limits of her share in reparation. From the point of view of the German interest the relatively greater speed with which, under this as compared with the old system, the tax is collected and reimbursed to the German exporter, is of particular importance. The Anglo-German Agreement has been still further simplified in its practical operation : the Reichsbank purchases at once the sterling delivered by the exporters and is reimbursed by the Agent General on its own account for its sterling transfers to Great Britain.

But the new method does not overcome the fundamental objections which are raised against the levy itself in the interest of German economy.

The French Government also agreed to bring the administration of the levy of 26 per cent. on German goods under the jurisdiction of the Transfer Committee. Since 1st May 1925 it has deposited the proceeds from the tax with the Bank of France to the credit of the Agent General's account, whence they are paid over to the French Treasury within the limits of the French share of the available funds in the annuity. On this basis the German exporters are then reimbursed. Unlike Great Britain, France therefore retains the old and tedious method of collecting the tax on every single shipment.

Distribution of Reparation Payments

On 27th October 1924 the financial experts of the Allied Governments and the United States met in Paris to resume, after a long interval, the discussion of the distribution of the German reparation payments. On this occasion their task was particularly

difficult. The United States presented a demand to be indemnified for its war claims against Germany out of the annuities under the Dawes Plan. At the same time, the reparation accounts had to be put in order for the period preceding the Dawes Plan—*i.e.* up to 1st September 1924—and as a consequence of the Ruhr Occupation those accounts were in a state of unholy confusion. Great Britain had always maintained that the occupation was illegal; France and Belgium had exploited the occupied territories on their own account, practically eliminating the Reparation Commission. All disputes arising out of this situation had to be settled.

In spite of weeks of labour the experts were unable to arrive at a definite proposal. In the report of their proceedings, which makes interesting disclosures, the experts confined themselves to making clear the position of each Government with respect to the various questions at issue. On 6th January 1925 the Allied Ministers of Finance themselves, and, as representative of the United States, Mr Frank B. Kellogg, then ambassador in London, met in conference in Paris. They reached an understanding on 14th January which has become known as the Financial Agreement of Paris.

As was inevitable, a compromise between the conflicting interests was found on most points. This applied in particular to the accounting for receipts and expenditure for the period of the occupation of the Ruhr, from 11th January 1923 to 1st September 1924. The question of the legality of the Ruhr adventure was discussed no further; otherwise Great Britain could not have participated in the distribution of the proceeds.

France and Belgium had presented the following statement of accounts:

Income—	*Million Gold Marks*
Fines and requisitions	45·50
Deliveries in kind	446·40
Total	491·90

Cash Receipts—	*Million Gold Marks*
Coal tax	129
Customs duties	163
Other taxes	101
Forests	27
Passports, etc.	3
Net revenue of the "Régie" railways	67
Total	490

Expenses to be deducted—	*Million Gold Marks*	
Administration	16	
Transport of coal and operation of factories	54	
Military costs	114	
		184
Net Income from Cash Receipts		306

Against this presentation Great Britain was able to urge that, under the Allied financial agreement of 11th March 1922, the cost of occupation was to be paid from deliveries in kind, and not from cash receipts, so that there would be an increase in the net cash income of 114,000,000, which should accrue to the Belgian priority.

The Conference of the Finance Ministers left the Reparation Commission to draw up an exact account of the several items, but laid down certain general principles. Deliveries in kind and cash receipts were to be accounted for separately. Military expenses in the Ruhr District were to be deducted from the value of deliveries in kind only to the extent that they exceeded the normal cost of maintenance of the troops in garrisons at home. The net amount of deliveries in kind thus ascertained was to be charged to the reparation account of the recipient countries.

From cash receipts of all kinds there should be deducted only the civil cost of collection and administration, transport of coal, operation of mines and coke ovens. The balance, less an amount of about 14,750,000 million dollars already set aside for American expenses of occupation, was to be transferred to Belgium on account of her priority.

Under the Finance Ministers' Agreement of Paris the German annuities under the Dawes Plan are to be distributed on the following basis.

1. *Prior Claims*

(*a*) The service of the reparation loan takes precedence of everything else. Apart from the first year, in which the full burden of the loan is not effective, the Agent General estimates that the foreign currencies necessary in any year for its service will amount to the equivalent of about 93,000,000 gold marks per annum.

(*b*) The expenses of the Reparation Commission, together with the expenses of the organization created under the Dawes Plan, may amount to 9,250,000 gold marks for the first year, but must not exceed 7,500,000 gold marks thereafter. Of this 3·7 million gold marks are provided for the organization under the Dawes Plan, subject to increase if necessitated by an extension of arbitration.

(*c*) The Interallied Rhineland Commission shall not expend more than 10,000,000 gold marks for the first year, and the Military Control Commission not more than 8,000,000 gold marks. Amounts for subsequent years will be fixed later.

(*d*) The United States then receives, in payment of the amounts in arrear of the cost of their army of occupation, 55,000,000 gold marks annually, beginning 1st September 1926, until the total amount is liquidated. This settlement takes the place of the so-called Wadsworth Agreement of 25th May 1923, under which the American costs of occupation, fixed at 255,000,000 dollars, were to be paid off out of reparation in twelve annual instalments of 83,000,000 gold marks, beginning 31st December 1923.

(*e*) Special appropriations, beginning with 15,000,000 gold marks and increasing to 30,000,000 gold marks, are provided from the annuities for the arrears of occupation costs incurred by France and Great Britain for the period prior to 1st May 1921.

(*f*) For the current costs of occupation in the first reparation year, the Agent General pays in advance a lump sum of 160,000,000 gold marks—110,000,000 of this go to France, 25,000,000 each to Belgium and Great Britain. Any excess cost is to be borne by each Power out of its share of the annuity; this may, however, be added

to its total reparation claim. For later years a new settlement is to be made, which is to be discussed prior to 1st September 1925.

2. *Other Claims*

The balance of the German annuity remaining after payment of all prior claims is applied as follows.

(*a*) Five per cent. to the payment of the Belgian war debt, of which, provisionally, France receives 46 per cent., Great Britain 42 per cent., and Belgium herself 12 per cent. on account of her debt to America.

(*b*) For restitution there is set aside, in the first four years, 1 per cent. of the total amount to be distributed, in subsequent years 1 per cent. of the first milliard gold marks after deducting preferred claims, and 2 per cent. of the balance of the annuity. The amount is distributed among the Powers which concluded substitution agreements with Germany for the settlement in cash of their restitution claims.

(*c*) Belgian priority.

The exact balance of the priority is to be ascertained by the Reparation Commission. In any case, Belgium will continue to receive in the first year her share of 8 per cent.; in the second year 8 per cent. monthly until the priority is completely liquidated; thereafter the Belgian share in reparation is reduced from 8 per cent. to 4·5 per cent. Beginning with that date, but not later than 1st September 1926, the $3\frac{1}{2}$ per cent. available from Belgium's original share of 8 per cent. is paid to France and Great Britain in the proportion of 52 to 22, in addition to their share as fixed at Spa.

(*d*) The United States receives from the annuity, after deducting priorities, a share of $2\frac{1}{2}$ per cent., subject to a maximum limit of 45,000,000 gold marks per annum. It also shares to the extent of $2\frac{1}{2}$ per cent. in the distribution and joint realization of Railroad and Industrial Bonds and of all other securities which may be issued under the Dawes Plan.

(*e*) In all other respects the Spa percentages remain unchanged. They are, as we know, 52 per cent. for France, 22 per cent. for Great Britain, 10 per cent. for Italy, and 5 per cent. for Serbia.

The Finance Ministers' Conference, in addition, settled a number of details. One decision of importance was that for the first four years no special charges are admitted in favour of the Allies arising out of the uncompleted requirements of the clearing offices. The Powers concerned are referred for the satisfaction of their claims to sequestrated German private property which they may liquidate under the provisions of the Treaty of Versailles.

The Results of the First Year

The first year of the operation of the Dawes Plan ended on 31st August 1925. The results can be seen in black and white.

Regarding the payment of the first annuity little need be said. It is made up of the proceeds of the reparation loan, the issue of which in the autumn of 1924 brought about 801,000,000 gold marks into the reparation chest, and by the contribution of 200,000,000 gold marks promptly paid by the railway company. It is of interest, however, to note what the various branches of the German economy and items of the budget, from which subsequent annuities under the Dawes Plan are to be paid, have actually produced in the first reparation year.

The railway company did not commence its operations until 1st October 1924. For the eleven months ending 31st August the following were the operating results:

	Reichsmarks
Operating receipts	4,033,050,000
Revenues after operating expenses . .	765,066,000

Less—	*Reichsmarks*	
Extraordinary expenses	268,016,000	
Interest	7,700,000	
Service of Reparation Bonds	200,095,000	
		475,811,000
Leaving a surplus of		289,255,000

which will be transferred to reserve account.

This result was attained notwithstanding the fact that the freight traffic was unsatisfactory, owing to the general economic depression

in Germany, while the expenses of the company for salaries, wages and pensions increased materially. It is to be hoped that, with normal development of traffic, sufficient net revenues will be available to meet the greatly increased requirements for reparation in subsequent years, which for 1925-1926 will amount to 595,000,000, and as from 1927-1928 to 660,000,000, gold marks annually.

The tax on railway traffic—the transport tax—will have to contribute 250,000,000 for the second and 290,000,000 for the third and following reparation years. It produced in the first year 280,000,000 gold marks.

Nothing was charged upon German industry for the first year. Its payments begin in the second year with 125,000,000, increase to 250,000,000 in the third year, and as from the fourth year are fixed at 300,000,000 gold marks annually. How the charge will work out economically cannot be foretold, but as it is a first lien on the entire German economy, with the exception of agriculture, the amount will have to be raised under any circumstances.

Controlled revenues under the Dawes Plan produced the following amounts for the first year:

	Million Reichsmarks
Customs	453·00
Tobacco tax	584·70
Beer tax	233·00
Sugar tax	264·00
Alcohol monopoly	164·40
Total	1,699·10

For the second year the Reich still retains the total amount of the controlled revenues, and only from the fifth year onwards do they contribute the full amount of 1,250,000,000 gold marks to reparation.

Unless exceptionally unfavourable conditions arise it may be expected that these taxes will yield a considerable surplus for the budget of the Reich in excess of the reparation quota.

According to the report of the Agent General the 1,000,000,000 gold marks received for the first reparation year were appropriated as follows:

For prior claims:

	Million Gold Marks
Service of the loan	77·00
Expenses of commissions	26·70
Costs of occupation	187·40
Total	291·40

Up to 31st August 1925 the Agent General had paid out a total of 893,000,000 gold marks, leaving a balance in his account of 107,000,000 for future accounting.

Including the undistributed amounts, the first year's payments are allocated as follows:

	Million Gold Marks
To France	429
„ Great Britain	190
„ Italy	64
„ Belgium	100
„ Serbia	31

For deliveries in kind there had been disbursed up to 31st August a total of 420,000,000, apportioned as follows:

	Million Gold Marks
For coal, coke and by-products	217·20
„ transport of same	78·40
„ chemical fertilizers	20·00
„ dyestuffs and pharmaceutical products	26·20
„ miscellaneous deliveries	78·40

The import levy (Reparation Recovery Act) required 180,000,000 —for Great Britain 155,000,000 and for France 25,000,000 gold marks.

The figures of the operation of the Dawes Plan in its first year are instructive. Deliveries in kind and collections under the Recovery Act combined reached almost the total amount of the annuity available for distribution after deducting the prior claims. A transfer in cash, therefore, in respect of the first year, was practically out of the question.

Compulsory deliveries, under the Treaty of Versailles, of coal,

dyestuffs and fertilizers make up by far the largest part of deliveries in kind.

Through the so-called free reparation contracts Germany delivered only a comparatively small quantity of other commodities, aggregating 78·40 millions. Of this Serbia, with 30,000,000, received the chief share; France, the principal reparation creditor of Germany, took such goods only to the value of 20,000,000 gold marks.

APPENDIX TO CHAPTER XXXI

THE RESULTS OF THE SECOND YEAR

THE second year of the operation of the Dawes Plan, which ended on 31st August 1926, has been dealt with in the report of the Agent General to the Reparation Commission dated 30th November 1926, and the principal figures given in it are as follows.

The second annuity of 1,220,000,000 gold marks has been punctually paid by Germany. Including the undistributed balance of 107,000,000 gold marks from the first year and some profits from interest and exchange operations there were placed at the disposal of the Agent General, up to 31st August 1926, 1,269,000,000 gold marks, out of which he paid for the service of the reparation loan 97,200,000 gold marks, costs of Interallied commissions 14,200,000 gold marks, and costs of armies of occupation 86,200,000 gold marks. The Agent General had disbursed, on 31st August 1926, a total of 1,175,800,000 gold marks, while 93,600,000 gold marks remained as unexpended balance.

The reparation payments of the second year were allocated as follows:

	Million Gold Marks
To France	612
„ Great Britain	228
„ Italy	87
„ Belgium	126
„ Serbia	44

A total of about 656,000,000 gold marks, apportioned as follows, was disbursed in respect of deliveries in kind:

	Million Gold Marks
For coal, coke and by-products, about	279
,, chemical fertilizers, about	51
,, dyestuffs and pharmaceutical products, about	11
,, miscellaneous deliveries, about	179

The import levy (Reparation Recovery Act) required about 243,000,000 gold marks—for Great Britain 201,600,000 gold marks and for France 41,500,000 gold marks.

Transfers in foreign currencies during the year amounted to about 416,000,000 marks, or about 35 per cent. of the total payments; included therein is a first direct transfer in cash of 65,000,000 gold marks which the Transfer Committee decided to make towards the end of the year.

The operations of the railway company in its first and second fiscal years furnished the following results, which for the first year cover a period of fifteen months, beginning 1st October 1924, while the accounts for the second year have not yet been closed at the time of writing:

	Reichsmarks 1925	*Estimated Reichsmarks* 1926
Operating receipts	5,668,700,000	4,550,000,000
Operating expenses	4,849,900,000	3,800,000,000
Net receipts	818,800,000	750,000,000
Service of Reparation Bonds	399,300,000	..
Legal reserve	113,400,000	..
Reserve for depreciation of concession and operating risks	150,000,000	..
Dividend on Preference Shares	3,000,000	..
Carried forward to new account	153,100,000	..
	818,800,000	..

The transport tax yielded in the second reparation year 268,700,000 reichsmarks, leaving a surplus of 18,700,000 over and above the 250,000,000 due on reparation account.

The revenues controlled under the Dawes Plan produced the following amounts for the second year:

	Million Reichsmarks
Customs	725
Tobacco	587
Beer	251
Sugar	228
Alcohol monopoly	177
	1968

On 8th September 1926 an agreement was executed by the German Government and the Reparation Commission by which the additional payments provided in the Dawes Plan from the yield of the controlled revenues in the third and fourth reparation years—not exceeding 250,000,000 gold marks for either year—have been replaced by a single definitive payment of 300,000,000 gold marks, to be made in instalments until 31st August 1927, thus increasing the annuity of the third reparation year (1926 to 1927) to 1,500,000,000 gold marks.

CHAPTER XXXII

THE TRANSFER PROBLEM

GERMANY's liabilities for reparation are exactly defined by the Dawes Plan. The normal annuity of 2½ milliard gold marks may be increased, after 1st September 1929, provided that the German economic condition shows an improvement as measured by the "Index." When the Dawes Plan has operated for thirty-six years a considerable proportion of the annuity—960,000,000 gold marks—will lapse through the amortization of the Railroad and Industrial Bonds. What is then to be done with the balance of the annuity is not indicated in the Dawes Plan. In so far as German payments are concerned, therefore, the reparation problem may be considered solved for a long time to come. For Germany meets her obligations by paying into the account of the Agent General in reichsmarks—that is, in her own currency—the annuities as they mature.

The question is only whether Germany will be able, year in and year out, to make those payments. Judging from the results of the first reparation year it would appear that the prospects are fair, provided general conditions in Germany and in the world develop normally. One of the main prerequisites is that the new German currency should remain stable, that there should be no depreciation in the reichsmark which could make the reparation burden weigh more heavily on the budget and German economic life. To take care of the currency is the first duty of the Reichsbank, but, at the same time, the Transfer Committee must see that the German currency is not endangered by reparation payments. In this respect the first reparation year does not give any cause for apprehension. As a result of an energetic and careful discount and credit policy, and thanks to the reparation loan, the Reichsbank occupies a strong position to-day. Its statement of 31st August 1925[1] shows a gold reserve of 1,138,000,000 reichsmarks. This represents—as com-

[1] On 31st December 1926 the gold holding of the Reichsbank had increased up to 1,831,383,000 reichsmarks. The new Reichsbank had, therefore, acquired by purchase since its organization gold to the amount of 1,236,000,000 gold marks. The foreign exchange holdings shown in the balance sheet of the Reichsbank of 31st December 1926 were 519,000,000 reichsmarks. The note circulation of the Reichsbank, which amounted to 3,735,000,000 reichsmarks at the end of 1926, was covered to the extent of 49 per cent. by gold alone, and to the extent of 62·9 per cent. by gold and foreign currencies.

pared with the lowest gold holding of the Reichsbank in 1923, which amounted to 444,000,000—an increase of 694,000,000 reichsmarks. Since the organization of the new Reichsbank, on 11th October 1924, the gold reserve has increased by 543,000,000 reichsmarks. The statement further shows foreign currencies to the value of 357,000,000 reichsmarks which serve as an additional cover for the Reichsbank notes. The gold reserve alone, therefore, was equal to 43·9 per cent., and gold and foreign exchange combined to 57·7 per cent., of the 2,594,000,000 Reichsbank notes in circulation on 31st August 1925.

The international quotation of the reichsmark showed practically no fluctuation for the past year and a half; it is at present identical with the gold mark.

The budget of the Reich, likewise, was in a favourable condition at the close of the first reparation year. The equilibrium between income and expenditure has been maintained. More than this, even the fiscal year ending 31st March 1925, whose accounts, however, have not yet been finally settled, showed a surplus which had not been budgeted for, making it possible to liquidate a series of internal and external obligations. The new fiscal year has so far given similar results. The five months ending 31st August 1925 show an excess in the returns from taxes and other revenues of 392,000,000 reichsmarks, or about 15 per cent. over the estimates.[1] This result, however, was obtained only by a burden of taxation and by a method of raising it that cannot be indefinitely borne. To some extent the necessary tax reform has already begun. It will have to be carried further, and only then will it become apparent whether the revenues not reserved for reparation are sufficient to meet the Reich's own budget requirements.

It will mainly depend on this question whether in the long run Germany can meet her liabilities under the Dawes Plan. This, however, as explained by the experts in their report, is only one side of reparation, which does not depend exclusively on the assumption and payment by Germany of her burden in reichsmarks. It is quite as important that the Allies should receive the German payments

[1] The final accounts for the budget years 1924-1925 and 1925-1926 are now available. The revenue of both years left a considerable surplus over the expenditure, but this excess revenue has since been completely disbursed for extraordinary expenditure.

in a form that will permit them to use the same for their own purposes, and it is therefore necessary that the reichsmarks deposited with the Agent General should be used either for the payment of German deliveries in kind and other services rendered to the creditor countries or converted into foreign currencies. To the extent that reparation funds are not made available in either of these two ways they remain in Germany and gradually accumulate. While this provides cheap money for German business it must eventually lead to serious complications. The Allies will not sit idly by and allow the reichsmarks in the reparation fund to reach the maximum of 5 milliard gold marks. They will make still greater difficulties if the German annuity—as provided by the Plan—has to be reduced, in order to prevent an increase of the fund in reichsmarks above the five-milliard limit.

The Allies will, on the contrary, use any and all means to obtain their money. It requires but little imagination and knowledge of human nature to picture the disputes which will thereupon arise between the several Allies in the Reparation Commission and within the Transfer Committee. Germany will then be the main sufferer, and its Government or certain economic groups will be accused of putting obstacles in the way of transfer.

This so-called transfer problem is the great puzzle over which experts and laymen have for long racked their brains. The Dawes Plan placed the task of transferring the reparation funds in the hands of the Transfer Committee, which is composed entirely of representatives of the creditor states, while Germany has no seat in it. It therefore rests exclusively with the creditors to take all necessary measures for the transfer. The German Government and the Reichsbank, however, are to facilitate the work of the Committee, and must refrain from doing anything calculated to interfere with transfers.

It is stated in the Dawes Plan itself that during the first two years almost the whole of the reparation funds should be disbursed within Germany. For this period, therefore, the problem of the transfer of cash—that is, the conversion of reichsmarks into foreign currency—does not as yet arise. The service of the reparation loan, for which the necessary foreign exchange must be acquired without regard to any possible effect on the German currency, is, of course, an exception to the rule.

Limited amounts for administrative expenses, about 30,000,000 gold marks annually, must also be paid from the reparation fund in foreign currency. Apart from those exceptions, it is the policy of the Agent General and the Transfer Committee to make all payments from the reparation fund for the first two years in reichsmarks and within Germany. The British and French import levies on German goods under the Reparation Recovery Acts, however, operate against this principle: they deprive German economy each year of some hundreds of millions of gold marks of foreign exchange, which the German exporters turn over to the respective Governments, either directly or through the Reichsbank, in order to recover the equivalent in reichsmarks from the reparation chest. The effect is exactly the same as if the Transfer Committee itself purchased foreign exchange in the open market with its reichsmarks. Consequently we have even now to reckon with an annual transfer into foreign currency of at least 300,000,000 gold marks, made for the service of the loan, expenses of administration and the import tax.

In the third reparation year, when the annuity amounts to 1,200,000,000 gold marks,[1] the transfer problem will be essentially unaltered; only in the fourth year—that is, two years from to-day—will the problem become really serious. The difficulties will increase still more after 1st September 1928, when the full annuity of 2,500,000,000 gold marks has to be paid. The problem can best be illustrated in figures. To-day, as stated, 300,000,000 gold marks are being transferred under the Dawes Plan; from 400,000,000 to 500,000,000 gold marks are paid for deliveries in kind, and expenses of occupation require about 200,000,000 gold marks; these three items practically dispose of the first annuity of 1,000,000,000. Assuming that they remain as they are at present, there would then be left, out of the normal annuity of 2,500,000,000, an amount of 1,500,000,000 gold marks annually for actual transfer—*i.e.* for the purchase of foreign currency against reichsmarks. When we consider that the annual payments of Great Britain for the interest and principal of its debt to the United States, which amount to less than 700,000,000 gold marks, are a heavy burden on both budget and currency, then it appears to be a grave question whether Germany, a much poorer country, will later be able, in addition to

[1] Now 1,500,000,000 gold marks; *vide* p. 299.

present reparation payments, to remit annually in foreign exchange more than twice as much as Great Britain to her creditors.

Many prominent authorities on national economy are of the opinion that the transfer of the German reparation debt in such proportions will not be possible, and that any serious attempt by the Transfer Committee to acquire such large amounts of foreign exchange by the sale of marks must result in another collapse of the German currency. This view is voiced not only in Germany and in the countries not interested in reparation, but more and more in the creditor countries, including the United States. Throughout the world the conviction is gaining ground that, after all, a country can make payments abroad for which it receives no counterpart only from the surplus of its production—in other words, only up to the amount that it can sell to foreign countries in goods and services, after its internal requirements have been met. The possibilities of such surplus, it is true, cannot be estimated on the basis of the bare figures of official trade statistics alone. The terms "imports" and "exports" must be considered in their broadest sense, and the balance of trade must include all elements which cannot readily be ascertained in figures, such as international freight traffic and foreign travel, income from investments in foreign countries, etc.

German credit balances in foreign countries can be created only by the export of goods or the performance of services, and only in this way can foreign exchange be made available for the conversion of the reichsmarks in the reparation fund into foreign currency. This foreign exchange, however, can be used for transfer purposes only to the extent that it is not required for the payment of Germany's own essential import needs. Purchases of foreign exchange for reparation without regard to German import requirements must, as the history of reparation clearly shows, endanger, and eventually destroy, the German currency. The authors of the Dawes Plan realized this fully, and for this reason directed the Transfer Committee to be governed in all its activities by the necessity of a stable German currency. It is interesting to note that this perception is now generally accepted as a fundamental principle, even in Allied countries, whenever the transfer question is the subject of either oral or written discussion. The delusion that the Dawes Plan, in fixing the German annuity, had completely adjusted the entire

problem of reparation, and that the conversion of reichsmarks into the currency of the Allied countries was only a technical matter of banking routine, is systematically disappearing. Strong emphasis is laid on the fact that the Dawes Plan deliberately left the transfer question open, and merely created the necessary machinery in the form of an organization for the technical execution of the transfer.

The extent to which the transfer problem attracts the general interest of the international business world may be judged from the fact that it formed the main subject of discussion at the Congress of the International Chamber of Commerce at Brussels, from the 21st to 27th June 1925. The creation of this organization was decided upon in 1919, at an economic conference of the American Chamber of Commerce at Atlantic City. In the beginning it had a purely Allied complexion; gradually, however, it was joined by the Chambers of Commerce of nearly all important countries. Its objects are to facilitate international commerce, to promote progress and the maintenance of peace, and to secure friendly relations between the different peoples. A congress of the International Chamber is held every two years. The Congress held at Rome in March 1923, which adopted resolutions on the reconstruction of the world, on reparation and on the Interallied debts, is best remembered. In connexion with these resolutions a "Committee on Economic Restoration" was appointed, with the American bank president, Mr Fred. J. Kent, as chairman. After the adoption of the Dawes Plan the Committee was enlarged, and it now includes the following members of the Dawes and McKenna committees: Mario Alberti, Alberto Pirelli, Henry M. Robinson, Sir Josiah Stamp, Owen D. Young. The Committee devoted its efforts mainly to the investigation of the transfer problem. It deputed to Sir Josiah Stamp, Alberto Pirelli and Comte André Chalendar the task of making a thorough study of the transfer problem, with particular regard to the question whether reparation might be utilized for carrying out economic enterprises on a large scale. The report of Stamp, Pirelli and Chalendar was submitted to the Conference of the International Chamber of Commerce at Brussels, under the title of "Reparation Payments and Future International Trade." It is divided into a general part, signed by the three members, and a special part, which bears the signature of Stamp

alone. This division into two parts may be explained by the fact that in dealing with the great transfer problem it is easy enough to agree upon general principles, but that divergencies arise as soon as specific proposals for the working of the transfer are considered. Stamp submitted such proposals in the special part of the report, and supported them by detailed arguments.

The aspect of the transfer problem which attracts most attention abroad is the question, what would be the repercussion on the economic conditions of the world if the German exports were increased to such an extent that they could produce the necessary foreign currency for the transfer of $2\frac{1}{2}$ milliard gold marks? Even to-day, when Germany has as yet an unfavourable balance of trade—speaking of trade in its widest conception—and foreign remittances for reparation account are held within moderate limits, German commercial energy is considered dangerous by all competitors in the world markets. When transfers of reparation funds on a large scale become necessary, then German exports will have to reach such proportions as to excite grave alarm among the industrial states of the world, and these are the very states which also are Germany's principal reparation creditors. If they want to ensure the transfer they must promote German exports; in doing so, however, they injure their own export trade. It is this dilemma which sets the key of the discussion of the transfer problem outside Germany.

We have therefore to examine the following series of questions:

How can German production be increased so as to produce the necessary foreign exchange for the transfer of the annuity of $2\frac{1}{2}$ milliard gold marks?

What obstacles would confront such a great increase in sales of German goods and services abroad?

How can such difficulties be overcome or avoided?

These are the same questions which German experts had treated exhaustively in their report on the economic effect of the Paris Resolutions of 29th January 1921. At that time, however, an annual reparation charge gradually rising to 6 milliard gold marks was contemplated, with the additional payment of 12 per cent. of the German exports, and the answer to the question was a simple "Non possumus."

But quite irrespective of any figures the economic principles

subscribed to by the experts in the spring of 1921 retain their importance for the Dawes Plan.

Sir Josiah Stamp undertook to answer the questions formulated above at the Congress of the International Chamber of Commerce held in Brussels. In his own penetrating and thorough manner he demonstrated, in entire accord with the prior opinion of the German experts, that the outlook for the transfers necessary under the Dawes Plan was poor, if the figures of Germany's trade before the war were taken as a basis and due account was taken of Germany's economic losses during and after the war. But Stamp rejected that basis as unsuitable, and endeavoured to show that greater possibilities existed to-day for the development of the German export trade, owing to completely changed conditions. For this contention he gives a number of reasons.

1. The world prices of commodities in gold have increased 60 per cent. The payment of $2\frac{1}{2}$ milliard gold marks will be correspondingly easier, because with the substantial rise in prices it will require much less merchandise to represent a value of $2\frac{1}{2}$ milliard gold marks than before the war.

2. The improvement in German industrial plant, especially in regard to water-power, enables Germany to increase her production very materially.

3. The war industries, which were of little productive value in an economic sense, have largely disappeared. With the energies thus released, Germany can produce new values for export.

4. The ranks of the German working people have received many recruits through the ruin of the former *rentier* class by the depreciation of the mark.

5. Germany still has assets and credit balances in foreign countries, the yield upon which will aid transfer.

6. An important source of revenue consists in the capacity of German industry to utilize its technical and economic experience in foreign countries, either directly or by obtaining royalties.

7. Finally, the very existence of a large foreign debt will bring about special pressure on Germany to use all possible means to liquidate the debt. Capital which under ordinary conditions would be invested in Germany will now go abroad, and thus create new German credits.

In spite of all this, even Stamp comes to the conclusion that the normal development of the export of German goods and services will probably be insufficient to enable the entire 2½ milliards under the Dawes Plan to be transferred, for there are certain natural limits to the sale of German goods in foreign countries. Even though Germany succeeded in increasing her production so as to create a surplus of 2½ milliards it would not be possible to turn the production into money, owing to the character of German exports, which in the main do not consist of goods which the world as a whole requires and absorbs continuously at stable prices —such as wheat and cattle—but of manufactured products with a limited market, the offer of which in large quantities would immediately depress prices and soon exceed the demand. This would seriously damage German trade and disorganize the markets of the world. All countries competing with Germany in the export of finished goods would oppose in the interest of their own industry an expansion of German exports which was unrestricted by any regard to the established order in the various markets of the world.

The correctness of these considerations is self-evident. The more German exports develop the greater will be the opposition encountered abroad. The struggle that French industry has always waged against the delivery of German goods to France on reparation account would be repeated on a much larger scale on the part of the industries of the entire world.

Even now most countries, especially the United States, are intent on protecting their industries by high tariff walls against underselling by countries with cheaper labour. But such a trade policy, if generally adopted, will work irreparable injury to reparation, as it will render it from the outset impossible for Germany to obtain the necessary foreign currency for transfer through the development of her export trade.

In an address before the Brussels Congress which received much attention Stamp treated this subject even more impressively, and drew from it the following lessons.

It is wrong for any state desiring, in the interest of the country as a whole, to collect reparation and lighten the tax burden of the country to attempt at the same time to close its borders against the import of goods from a debtor country by protective tariffs or other

barriers. The interest of the people as a whole in obtaining reparation conflicts with the interest of the individual industries which feel themselves injured by foreign competition. The debtor has no choice; he can pay his debt only from the proceeds of his exports. The greater the debt the greater must be the increase in exports. His capacity to pay the debt decreases in the same ratio as his goods are excluded from the world markets. Consequently the creditor has the choice of two alternatives: either to protect his industry and waive reparation or, if he wants to collect reparation, to override the objections of industry.

But Stamp does not confine himself to mere warnings; because foreign competition in the world markets threatens German exports, and therefore threatens reparation, he endeavours to find a way to avoid competition, and the following is the doctrine which he preaches.

If the outflow of German goods merely takes its course in the old channels, which were meant for quite different conditions, it will flood and overflow them. It is therefore necessary to create new channels for the movement of German goods and to find new ways of utilizing German labour abroad. This can be accomplished only through international co-operation according to a fixed programme. The task is not to stimulate a new demand for consumption of goods in order to satisfy immediate needs, but to create a demand for such German goods and services as will create permanent capital wealth.

In the reports presented to the Brussels Conference of the International Chamber of Commerce four methods for transferring reparation funds to the creditors are indicated.

1. A considerable expansion of German exports to general world markets, in the ordinary course, and without any special organization or co-operation of the creditor countries. This would be the ideal form for the Allies of receiving cash payments for reparation.

2. Arrangements between the individual creditor countries and Germany regarding deliveries in kind or services.

3. International co-operation in large enterprises of public interest.

4. Sale of Railway, Industrial and other German bonds on the international markets, and purchase of German securities for permanent investment in Germany by non-Allied private concerns,

This method would offer the advantage that a part of the capital of the reparation debt could be transferred and redeemed immediately. It was true that such investments in German securities created a new German indebtedness, on which additional interest and amortization had to be paid, but the burden was distributed over a period of many years, and could be transferred later, when the reparation debt did not press so heavily on Germany as at present.

The novel feature of the above statement is the third suggestion —the theory of the so-called *assisted schemes*. It is intended to direct German exports and German labour to the countries where they meet no competition and are not detrimental to Alled interests. This idea has lately met with an especially favourable response in America. Stamp, in his report to the Congress of Brussels, analysed it carefully. He presents the matter as follows.

A part of the reparation funds should be used to carry out—in neutral countries not yet developed or in colonies of the Allied countries—large undertakings, such as railway and harbour construction, hydro-electric works, river control, etc., which could otherwise be realized either not at all or not so soon. The scheme should be applied only on condition that the country for whose development the work is undertaken furnishes from 60 to 70 per cent. of the capital needed, so that only the remaining 40 or 30 per cent. has to come from abroad. In such cases the Allied Government interested in such enterprise—Great Britain, for example—would avail itself of its share of the reichsmarks accumulated in the reparation fund which cannot otherwise be used at the time in order to employ German goods and German labour for the enterprise in question and to pay for them in reichsmarks. The Allied country would thus acquire a share of the capital of the enterprise to the extent of this contribution in goods and labour. Such share could later be disposed of when the enterprise had developed the necessary earning capacity.

This, in outline, is the fundamental idea of the *assisted schemes*. There is something fascinating in the picture of large areas of the world, now barren and unproductive, being opened up with the aid of reparation. It is quite possible that such an opportunity may from time to time occur when all the necessary conditions are present; but to expect the scheme to become a programme for the

liquidation of a material part of the reparation debt is hardly anything but a dream, and perhaps not even a pleasant one. Projects of such a scope—if after thorough investigation considered economically sound and profitable—are usually undertaken by the Government of the country concerned, and financed through issues of its own loans, or private capital is ready to carry them through independently. If, on the other hand, there should be serious doubts as to the earning power of the enterprise a contribution of 30 or 40 per cent. of the cost of construction from reparation funds would not suffice to carry it through. It is not so much a question of raising the necessary capital for construction as of being assured that the operation of the enterprise will be profitable. And if that cannot be demonstrated, then the 60 or 70 per cent. of the capital to be contributed by the country interested will not be available any more than if the entire cost was to be borne by the country. If, notwithstanding, the project is realized, both sides will run the risk of losing their contribution, and then the undertaking is of no benefit either to the country itself or to the states which contribute part of their reparation claims. The promotion of such development schemes with the aid of reparation funds has been properly compared with the cultivation of plants in a hothouse : in both cases care must be taken lest an excessive supply of heat and nourishment produce a too rapid and unhealthy growth.

Neither can the interest of Germany be disregarded in questions of this kind. It is clear that the German goods and German labour to be used can be secured only by free barter, and never by compulsion. In cases where the German spirit of enterprise applies itself to large undertakings in foreign countries it will be less concerned to sell goods or carry out works for payment than to obtain a permanent interest in such enterprises—a possibility which the assisted schemes totally exclude. German services are to be paid for from reparation funds; all profits derived from the services go to an Allied state. German co-operation for such plans is not in this way systematically attracted. Conditions may, of course, be such that there exists no important German interest in the scheme proposed, but that will be more or less exceptional, and cannot be made the basis for the application of a general scheme in the grand style.

Similar objections were raised within the Committee on Economic Restoration of the International Chamber of Commerce. Pirelli made the reservation with regard to the *assisted schemes* that he doubted whether there was a practical and useful way of stimulating German trade artificially on a large scale. The Committee on Economic Restoration, in its report, while granting the possibility of the assisted schemes, declared that the idea must first be thoroughly examined, and that the last word on the subject could not as yet be said.

The report of Stamp, Pirelli and Chalendar recommended the creation of a standing organization for the study of the *assisted schemes*, but the proposal received no further consideration on the part of the Committee.

The Congress of the Chamber of Commerce itself took no definite attitude toward the transfer problem, but adopted the following general resolution:

"The problem of transfers evidently presents difficulties which can be overcome only by actual experience and the continual study of events. It seems hardly probable that the problem will be solved by any one means, but the result will be accomplished by various methods. The Transfer Committee created for the purpose must have the co-operation of all Governments and of the business interests of the world. The International Chamber of Commerce pledges all assistance within its power."

The Agent General, Mr Gilbert, also spoke on the question of transfers before the Conference in Brussels. In his opinion the time was not yet ripe to adopt any definite theories. It would be folly for anyone to attempt to predict what volume of transfers could be attained in three or four years. It was clear that difficulties might arise, but that was no reason for discouragement or gloomy predictions, but should rather be an incentive for intelligent concerted effort to overcome these difficulties. That the world recognized the nature and magnitude of the problem so early was a healthy sign.

As against the difficulties analysed by Stamp and others, Gilbert pointed out the factors which might materially facilitate a solution of the problem.

In the first place, he believed in the natural forces of economic

development. These forces might, if not subjected to too many artificial experiments, bring results, even within the next few years, that would surpass anything considered possible to-day. As evidence for this he pointed out what these forces had accomplished for world construction since the end of the war.

Deliveries in kind, moreover, had not yet been fairly tested. Their development had been hampered because of opposition by competing interests in the creditor states and because of the deadlock and disorder existing in all matters of reparation prior to the Dawes Plan. There were already certain indications of an expansion of deliveries in kind.

Furthermore, confidence should be had in the forces set in motion by the activities of the Transfer Committee, which had the fullest power for its work. Moreover, the Dawes Plan was not rigid, but elastic. It could be adapted to changing conditions, as arbitration was provided for the interpretation of its provisions. What, in Gilbert's opinion, was most necessary was a general enlightenment of the world regarding the nature of the reparation problem, and in this he saw the main value of the co-operation of the International Chamber of Commerce. But he demanded, as a material foundation, a reliable system of statistics on economic conditions, and timely and complete information regarding the budget, with respect to which, for example, Germany was very behindhand.

The intense interest which the transfer problem attracts throughout the world does not apply to reparation alone. In the Allied countries which are indebted to one another, and particularly to the United States, it is concentrated with equal intensity on the treatment of Interallied debts, which, after all, stand on the same footing as reparation debts. Their payment likewise is possible only to the extent that the debtor state can transfer the surplus of its production to the creditor state. As all these countries have reparation claims against Germany, whilst ultimately all Interallied debts converge in the United States as the world's principal creditor, the transfer question is being used to amalgamate reparation and Interallied debts. The object is apparent: *the fate of the claims against the Allies is to be made dependent on the payment of reparation.*

The United States—for the question really turns on that

country—is to be paid by its Allied debtors only to the extent that they receive payments under the Dawes Plan. Or, more simply still, debts and reparation, as far as possible, are to be set off against each other and the United States is to become the principal and direct reparation creditor of Germany in place of the Allies.

This has been the attitude which France and Italy, in particular, have adopted for several years—in fact, ever since the Allies made reparation plans. The United States, for obvious reasons, has positively refused to consider such proposals and, up to the present time, public opinion in America has rejected the policy which they embody. But even admitting that Interallied debts can be settled independently of reparation, there can be no doubt that the economic principles established by the Dawes Plan for reparation are equally applicable to the settlement of Interallied debts. A well-known French journalist expressed this wittily by saying that the transfer —a microbe newly discovered in the body of Germany—must also be found in the organism of the Allied countries if they were to pay their war debts. In this case, too, the principle of paying in their own country and in their own money would have to be adopted. In the report of Stamp, Pirelli and Chalendar, to which reference is made above, it is stated that in a general settlement of Interallied debts all payments made by Germany to the Allies would serve to pay their debts to other Allies or to the United States. As the United States was ultimately the creditor of all Allied states the latter were only intermediary parties between Germany and the United States. *Reparation payments in the main, therefore, could be made directly by Germany to America and thus the problem would become a German-American one.*

The resolution passed by the Congress of Brussels deals with this point in a more general and cautious manner:

"The principal considerations which apply to the transfer problem obtain with equal force in relation to the question of Interallied debts. Attempts to transfer excessive amounts in settlement of obligations must of necessity affect especially the budget and currency conditions of the country involved and disturb its financial situation. Special precautions are necessary to prevent such difficulties, and due account must be taken of the internal and external economic conditions of the countries concerned."

PART V

THE GOAL IN PROSPECT

CHAPTER XXXIII

A POSSIBLE SOLUTION

Opinions regarding transfer possibilities will continue to differ widely for a long time to come. While many, both at home and abroad, express the opinion that Germany will in due time be able to transfer to her creditors the full annuities of $2\frac{1}{2}$ milliard gold marks, a great number of persons, who are really representative of either the theory or practice of finance, will continue to retort with good arguments showing that it is quite impossible.

The Congress of the International Chamber of Commerce at Brussels did not much advance us in the knowledge of the practical possibilities of transfer. The doctrine preached in the Dawes Plan, that in this question experience can be the only teacher, will remain true. It is useless to build up in advance a definite system with the possibilities of transfer duly classified. It is gratifying that the International Chamber of Commerce will deal with the transfer question in this spirit. Its labours will now be all the more useful in that Germany has lately joined the Chamber of Commerce, and German members are now able to co-operate in the Committee of Economic Restoration. For the problem is just as vital to Germany as to the Allies, and intelligent German co-operation is essential in any measure intended to promote the success of transfer.

This activity in international economic circles must proceed in close connexion with the Transfer Committee, with which rests the responsibility and initiative under the law and which is, through its daily handling of the reparation question, in the best position to gain practical experience and turn it to profit.

While it is impossible at this date, and will be quite as impossible in the early future, to express any decided opinion as to what form the transfer will take, and what amounts can be withdrawn from Germany for reparation, the thorough scientific studies made by Stamp and others offer us valuable points of departure. The following may already be said regarding the several methods recommended at Brussels for the development of German exports.

German exports cannot be materially increased by artificial means—as, for instance, by a systematic search for new markets

for German goods and labour. The industry of a country and the commerce of the world cannot be forced into fixed channels however many clever and experienced persons may co-operate to attain this end. This applies especially to the method of the *assisted schemes*.

On the other hand, there is little prospect that German exports will develop naturally to such magnitude as to produce a surplus which would even approximate to 2½ milliard gold marks. In the normal course of commerce the world can absorb German goods only in restricted quantities and within certain mathematical limits. With every day which passes countries which used to afford good markets for German industry become more self-sufficient, while competition between the large exporting countries becomes keener and keener. Notwithstanding well-meant warnings from economic experts the creditor states will not be deterred from protecting their industries against underselling from abroad by protective tariffs and other barriers.

It is surprising that in most recent studies of the transfer question the only point discussed is how to increase German exports in order to produce a surplus of production. They do not lay sufficient emphasis on the fact that a surplus can also be created by a *restriction of imports*.

In the report prepared by the German experts for the London Conference of March 1921, to which repeated reference has been made, it was pointed out that the German balance of trade might be considerably improved by economizing on German imports. It is, of course, true that Germany must import the necessary *raw material* in the same—and perhaps even larger—quantities as in the past; but it is quite conceivable that the import of *foodstuffs* might be appreciably reduced through the improvement of her own agricultural production. Large tracts of moorland in Germany, which are to-day entirely unproductive, are awaiting reclamation. Agriculture can be intensified and made to yield better returns; it still offers in Germany a large field for the introduction of labour-saving machinery and the substitution of tractors for beasts of burden. Nitrates, the most important fertilizer, are produced to-day by Germany's chemical industry in such quantities as to meet her own requirements and leave increasing quantities for export. To make

Germany self-sufficient with respect to foodstuffs is not an unattainable aim, except perhaps in the case of the meat supply. At any rate it would be possible in this way to bring about an improvement of several hundred million gold marks in the German balance of trade.

Not much can be expected for transfer from the development of deliveries in kind. Frequent reference has been made to the causes which so far have kept deliveries in kind within relatively narrow limits. These hindrances are inherent and cannot be overcome.

Deliveries of coal to the Allies, which in 1920 reached their maximum of 2,000,000 tons per month, have decreased steadily. In the summer of 1925 they amounted to little more than a monthly average of 1,000,000 tons. To a certain extent these deliveries for reparation account—of coke to France and coal to Italy—will continue for some time, but they will certainly not increase. Deliveries of dyestuffs for reparation will cease on 15th August 1928. Artificial fertilizers will be delivered on reparation account just as long as Germany has an advantage in the production of them. Reconstruction of the devastated areas is almost completed everywhere, and practically no German material or labour has been used for it. The demand for other German industrial products on reparation account, especially from France, will hardly increase in the future, because industries in Allied countries will continue to protect themselves against the development of German competition in their own country.

Against this internal opposition no procedure for regulating deliveries in kind, however elastic, will avail. Free commercial intercourse between countries will, wherever possible, avoid using a channel which is beset at either end with Government supervision, and offers opportunities for the wholesale disclosure of private business information. The execution of public works for reparation account by German contractors will continue to meet with difficulties of a similar nature in Allied countries. In specific instances such work may be undertaken, but extensive schemes, like those for hydraulic works prepared in the past for reparation account by the French Minister of Public Works, Le Trocquer, will hardly ever materialize.

Everything considered, it would seem to be a fact that neither

the export of German merchandise nor the utilization of German labour abroad will ever be increased sufficiently to ensure the uninterrupted transfer to the creditor states of the total German annuities under the Dawes Plan. Nor is there any chance, of course, that any more general application of the import levy on German commodities under the Reparation Recovery Acts would be instrumental in opening up much greater possibilities of transfer. For this levy, by its very nature, interferes with German exports, even if it is levied with the least possible red tape. It may therefore be welcome at the moment to the individual creditor states, as affording them a direct hold on German exports, but it will ultimately prove detrimental to reparation because it handicaps German production.

The sale of German securities abroad figures last in the list of the several methods of transfer indicated to the Brussels Conference. This method is quite different in character from all the other means so far discussed. Its applicability and success are not directly dependent upon Germany's production of commodities and services, but are based on German credit and the amount of confidence entertained at home and abroad in the general progress of German economy.

It is the old-established method of loans. By its nature it is less adapted to transfer Germany's *annual reparation payments* under the Dawes Plan, but it is ideally suited to redeem large amounts of the *capital of the reparation debt* through payment of the proceeds of loans to the reparation creditors. The purpose of this process is to convert Germany's political debt to the victorious Powers into a debt to private creditors, and so to bring reparation to a speedy conclusion. To that end it is necessary to induce foreign capital and German credit balances in foreign currency to invest in German reparation loans. The more general confidence in the security of Germany's political and economic relations increases, the greater will be the success.

The vision of this goal had already floated before the eyes of the authors of the Treaty of Versailles. It is found again in the London ultimatum of 5th May 1921, and forms the central point of every German reparation offer. In all these plans the German debt was to be paid through the issue of loans.

The Dawes Plan also adopted the loan idea, but only for a part of the reparation debt—that part, namely, which is represented by the burden placed upon the railway system and industry. The Dawes Plan could not go further, and provide for loans covering the entire reparation debt, for it would have then been necessary to fix the total amount of the reparation debt, which, as we know, was beyond its scope. It had, perforce, to confine itself to indicating a consolidated loan issue as the ultimate goal of reparation in veiled terms and as if half ashamed of it.

But the annual payments can be funded into a capital debt only when the Allies have made up their minds definitely to fix a reasonable total amount for the reparation debt, which has remained unaltered since the London Schedule of Payments of 5th May 1921. Sooner or later this must be done in the interest of both sides. The Allies want reparation—that is, the restoration of war damage. The sooner such restoration takes place the better for their finances and economy. They derive but a meagre benefit from the annuities under the Dawes Plan. These annuities, whilst imposing a heavy burden upon Germany, are drops in the ocean for the individual Allies with their financial needs. They can repair the damage only by very slow degrees. The Dawes Plan introduced them as an emergency measure designed to re-establish orderly relations in the world during a period of transition. After all, reparation answers its purpose only if made within a reasonable time, while the damages and their consequences still exist. The latter are disappearing more and more with every year which passes. Reparation becomes an absurdity if it is not in the main carried out before no damage remains to be made good. As a mere matter of calculation, German payments to the Allies lose in value year by year: what, for example, is paid thirty years hence, represents to-day but a fraction of the nominal amount. In the Allies' own interest it would appear in every way desirable that Germany's reparation payments should be made within the shortest possible period and that the successive annuities should be funded into a fixed capital debt to be discharged by the issue of loans.

In so far as Germany is concerned the situation is, if possible, even clearer. Germany can return to normal economic conditions only when she learns definitely how much in all, and within what

period, she has to pay. Only when Germany knows this, and is convinced that the payments required are not beyond her capacity, will she bend all her strength to extinguishing her reparation debt as quickly as possible and to recovering her complete independence. All this sounds like a truism, and has been said over and over again, yet it can never be repeated insistently enough. We know why these simple ideas have not so far been put into practice. Throughout the negotiations for reparation, until the acceptance of the Dawes Plan, political motives have consistently overshadowed economic judgment. The Allied leaders, who at the end of the war promised their peoples that Germany would pay the huge total of their war costs, have until now been afraid, by a resolute return to realities, to dissipate the illusions which they have so long encouraged regarding Germany's capacity to pay.

When once the world has advanced so far as to regard the reparation question, not as a political, but as a purely economic one, it will be necessary for the Allies to have the German debt so fixed that Germany is in a position to mobilize the total amount by way of loans and regularly to pay abroad interest and sinking fund charges on such loans. Moreover, the reparation debt must not be fixed at a higher figure than the amount which foreign and German capital is willing to invest in German loans. For loans which find no buyers are of no benefit to the Allies; they may serve as a political advertisement, but can never be of economic use.

Starting from these principles, we arrive at the following conclusions.

The reparation debt must not exceed the total amount of the loans which Germany is able to float, upon reasonable terms, on the money markets of the world, within a definite time, say ten years. The proper criterion will be found in the amount which, in the opinion of investors, Germany is able to transfer abroad each year.

The possibilities of transfer are to-day a profound enigma, but the experience to be gained in the next two years will prove very instructive. Then the moment will have come to end the uncertainty in reparation by an arbitral decision. The arbitration should emanate from the Transfer Committee constituted under the Dawes Plan. Upon the basis of the experience gained in the transfer

operations, it would have to determine the maximum amount of reparation which Germany is to pay within ten years by means of loans. The amount and time of issue of each individual reparation loan would likewise have to be settled by the Transfer Committee, in accordance with the conditions of the investment market. The terms governing the several loans would have to be agreed upon between Germany and the underwriting syndicate, under the supervision of the Transfer Committee.

Any part of the maximum liability which cannot be liquidated by loans within the fixed period of ten years must lapse—so that in any event at the end of ten years the German reparation debt would be deemed to be completely discharged.

Such a solution offers many advantages; it would, after three years of operation of the Dawes Plan in its present form, abolish the existing state of suspense, in which no one knows how large the German debt is and when it will be redeemed. As it fixes a maximum amount which expert judgment anticipates Germany can pay abroad, it prepares the ground for the return to surer and more normal conditions in the world. Germany gains at last a clear perspective of her economy and of her budget. The reparation creditors receive, in lieu of annual payments in reichsmarks, for the transfer of which to their own country there is no certainty, an assured claim to satisfaction out of the proceeds of large German loans, the issue of which is regulated in accordance with the condition of the investment markets from time to time. The right of determining the proportion of the maximum of the reparation loans which can be issued is reserved by the creditor states to the Transfer Committee, and therefore to themselves.

The solution would be final, yet elastic, and there must be no rigid solution, because there is no way of foretelling exactly, even after several years, to what extent the world markets will absorb German loans. And it is equally impossible to answer the question what payments by the debtor can be supported by the creditor country without serious injury to its own economy. This latter consideration must not be dismissed with a cheap phrase or a shrug of the shoulders. International payments running into many milliards cannot be compared with ordinary business transactions where no one is injured by the collection of his claims. True it is

that for some time the creditor country will be pleased enough with large payments, for with their assistance it can improve its budget and reduce taxes. But even this process has certain limits, which are reached when there is no further object in reducing taxes and when the steady influx of gold and gold values leads to a general increase in the cost of living throughout the country. The danger then arises that the creditor country may relax its economic exertions in competition on the world markets and that it will be outdistanced in efficiency by the debtor country, which must be in first-rate training in order to pay its debt.

All these economic and moral factors will prove their strength in the future, and they may lead the creditor states to find a real interest in not exploiting their reparation claims to the utmost.

What has been said above applies with equal force to the settlement of Interallied debts. Gradually the Allied countries will enter into individual arrangements, modelled on the settlements already made, between each other, and each with the United States, for the adjustment of the liabilities between the several Powers arising out of the World War. The economic consequences of such agreements cannot now be foreseen, and whether they can be carried out in their original form is questionable. Perhaps all will end in a general setting-off of reparation against Interallied debts, so that in the end America will emerge as the principal creditor and Germany as the principal debtor. Just because of such unforeseeable possibilities all doors must be left open in the final settlement of the reparation debt.

The Dawes Plan, as we have seen, also covers the reparation claims of America against Germany under the separate Treaty of Peace of 25th August 1921. If the total German debt is to be discharged by loans the American claims should also be paid off in the same way. Unlike the claims of the other Allies, they will shortly be definitely determined by a decision of the Mixed Claims' Commission in Washington, and as they will presumably reach only a moderate amount, probably not more than 200,000,000 dollars, it would be very desirable, with the consent of the other creditor countries, to negotiate the loan necessary to pay them without waiting for the final settlement of the entire reparation debt. With a view to this solution the Congress of the United

States should promptly decide to release the sequestrated German property in the United States unconditionally. Such a release, owing to her present lack of capital, would be of vast importance to Germany. America has no other interest in the further retention of the German property than to keep it as additional security for its reparation claims, although the guarantees provided by the Dawes Plan should be sufficient for America, as for the other creditors.

Germany will participate in the purchase of reparation loans to an increasing extent as her prosperity grows. She has a paramount interest in placing part of the loans in her own country and thus converting a foreign debt into an internal debt. This, of course, can be done only to the extent that her nationals have credits available abroad. The investment of such funds in reparation loans greatly facilitates the transfer problem, and at the same time benefits German economy, because the sums paid for interest and sinking fund on amounts subscribed in Germany remain within the country. The more this can be done the more quickly will Germany attain her full economic recovery.

The present proposal for the final solution of the reparation question is in essentials identical with previous German offers to the Allies. All German proposals for reparation were based on the issue of loans for the redemption of the debt. At the London Conference of March 1921 the German Government offered 30 milliard gold marks, of which 8 milliards were to be provided immediately by a loan. The offer was regarded as a mockery of the Treaty of Versailles, and was answered with severe economic and military sanctions. From the autumn of 1922 onwards the German plans more and more took the shape of an offer of 30 milliards gradually to be provided by loans on the world market, the issue of which was to be conditional only on the capacity of Germany to pay, and the capacity of the markets to absorb German securities; these reservations correspond exactly in essentials to the limitations placed on German payments by the transfer provisions of the Dawes Plan.

The road to the final settlement of the reparation problem would therefore lead back to the standpoint assumed by Germany long before the occupation of the Ruhr, and for which she had to suffer so severely.

The goal of reparation will probably be a blending of the Dawes Plan with the former German offers of loans. The guarantees introduced by the Dawes Plan will be of the greatest service in the issue of reparation loans. The first charge on the railways and on industry, the customs and the controlled revenues will constitute excellent guarantees for reparation loans, as long as any special security at all is demanded for German Government loans.

The extreme limit for the maximum amount of the reparation debt is already indicated by the annuities of the Dawes Plan. The present capital value of all these payments is calculated at from 30 to 40 milliard marks, according to the rate of compound interest adopted. The capital liability for reparation would therefore be within these figures, assuming that all annuities could be duly transferred in full to the creditors. With the great uncertainty which exists to-day on this point—an uncertainty which will not grow less with the passage of time—it is essential that in the final settlement —let us say within two years from now—the maximum amount of the German debt negotiable in loans should be fixed at considerably less than 30 milliard marks, if indeed the Allies wish to have a reasonable assurance that reparation loans will be sold to the full amount of the debt and around par. If they exaggerate their demand they run the risk of having the first reparation loan placed with difficulty and at a loss, and a failure in the case of the first loan would react very disadvantageously on all future issues.

The Dawes Plan could in its essential features continue to exist and to function, only Germany's annual payments would gradually lose the character of direct payments to the creditor states, as they would be applied in ever-increasing proportion to the service of the separate loans. The amount of the normal annuity under the Dawes Plan will have to be radically revised. In the final settlement of the reparation debt this annuity will have to be determined by the amount required for the payment of interest and sinking fund on the total debt. None of the figures necessary for such calculation are known to-day, and they can be ascertained only through the experience gained in the next few years. The Dawes Plan gives us a point of departure. It fixed the normal reparation annuity of the German Railway Company at 660,000,000, and its capital debt at 11 milliard gold marks. The annual payment required represents

5 per cent. interest and 1 per cent. for amortization of the capital debt. This calculation could readily be applied to the annuity payable on the total reparation debt. The annuity so determined would be paid and administered, in the same manner as in the past, under the terms of the Dawes Plan. Whenever a reparation loan was issued, 5 per cent. interest and 1 per cent. for amortization would be assigned out of the annuity for its service. As long as the entire revenues collected by the Agent General are not required for the service of the loans, payments might continue for cost of occupation, deliveries in kind, import levies (Reparation Recovery Act), etc. But all these expenses will automatically diminish as time goes on and ultimately disappear. Deliveries in kind and import levies are of value to the reparation creditors only while they are dependent on annual payments. When once the creditor states receive the proceeds of the reparation loans they can dispense with all expedients used to-day for transferring the German annuities abroad.

In the clear light of economic science, which is illuminating the road of reparation since the Dawes Plan, the nebulous phantoms which a world still obsessed with war intoxication has been vainly pursuing through suffering and want for all these years are dissolving. A disposition to face stubborn facts has everywhere gained strength and the milliard-fever has been cured.

From the safe retreat of the Dawes Plan we now descry in the mists of the future the long wished-for, bitterly contested goal. And, behold, it lies on the road which we have already trodden. Many an experienced guide had pointed it out to the peoples as they rushed past it in their delusion. But their calls remained unheeded in the turmoil, and the headlong course was continued through misery and distress. Now at last we can march toward the goal, enriched by experience, with quiet and determined steps.

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